

Proposal :

**1.** If No Title to CSR —

- ▶ TRANSFER-OF-CREDIT  
(and treatment as SS. beneficiary)

**2.** If Entitled to CSR —

- ▶ GUARANTEED BENEFIT  
(normal CSR benefit raised as necessary to assure, to those entitled, income equal to that proposed for future SS beneficiaries)

No CSR for dependents of living persons

## ① Transfer of Credit

If not entitled\* to CSR benefits  
@ death, disability, retirement age

---

- Employee or survivors apply for S.S. benefits
- S.S. gets service history from CSR, and pays as S.S. beneficiary
- S.S. bills CSR Fund annually for proportionate cost of S.S. benefits paid on CSR service
- Treasury transfers money from CSR to S.S. Trust Funds

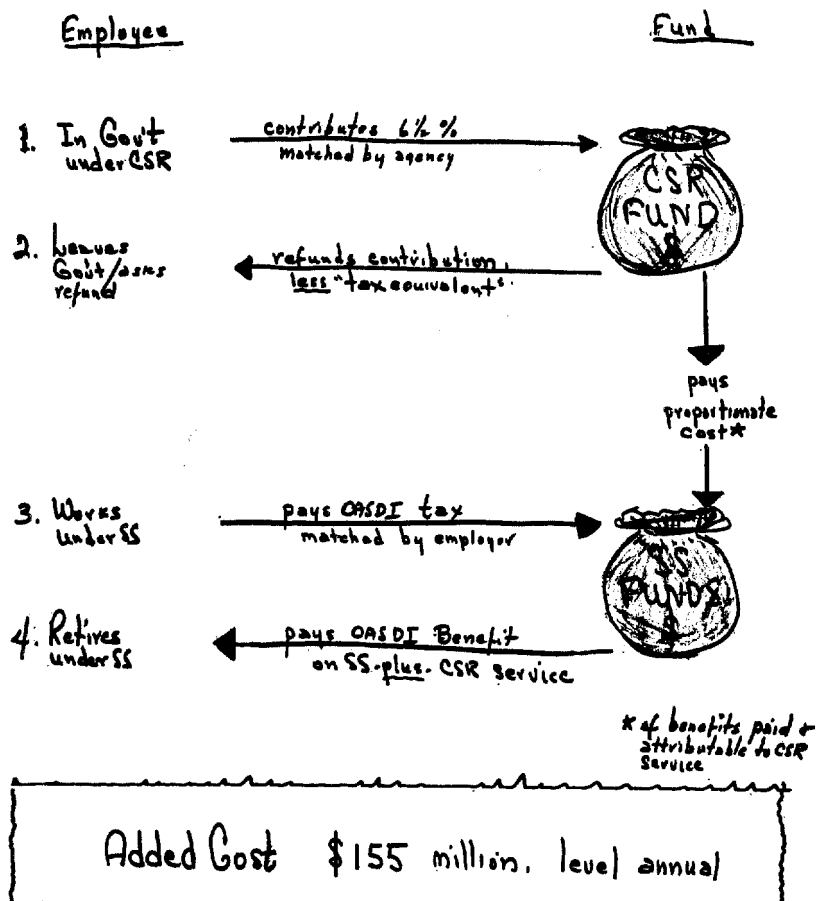
\* CSR refunds retirement contributions less "tax equivalent" for service after 6/30/66

## Transfer of Credit

### Will Help:

- Under 5-Yr Employees,  
and their survivors
- Those who lose CSR title,  
and their survivors
- Survivors of those entitled  
to deferred annuity who  
die before retirement age

## TRANSFER of CREDIT (No CSR title)



## 2. Guaranteed Benefit (CSR entitlement)

### — Warranty —

CSR annuity plus any SS benefit payable for other service will at least equal OASDI benefit that would be payable to those entitled under CSR if Federal service had been covered by SS.

### Not Applicable for —

- those not entitled under CSR (parents, dependents of living persons)
- spouse of employee not electing maximum survivor annuity
- aliens serving abroad under CSR
- deferred annuitants, their families or survivors

### GUARANTEED - BENEFIT

- Compute normal CSR benefit
- If below Guarantee,
  - offset any SS benefit payable, then raise as necessary to match guarantee
  - drop widow's benefit to normal CSR when last surviving child is 18
  - raise widow's benefit at age 62, if necessary to match guarantee
  - [employee's benefit could be upped @ 65]
- If above Guarantee,  
CSR and SS each pay earned benefit,  
in FULL

## GUARANTEED - BENEFIT

helps MOST \_\_\_\_\_

- Those with 5.20 years' service, especially if lower-paid
- Surviving families that include children
- Those not entitled to SS benefits for other service

Added Cost: \$125 million, level annual

## SUMMARY

- Not Entitled to CSR
  - SS Benefits
- Entitled to CSR
  - at least SS level, and maybe more
- Either Way
  - never less than normal CSR
  - better survivor benefits, if children
- Less Cost to Gov't than other choices producing desired results



Mr. Chairman, I want to thank you and the members of your subcommittee for your patience in permitting me to go through this proposal in such detail.

I want to say again that the plan, as it is offered, represents the product of many years of study, and is intended to fill a gap that we believe exists in the economic protection of Federal employees, and that its enactment would plug that gap and give the Federal Government a comprehensive program of protection for all that worked for the American people.

Thank you very much.

Mr. DANIELS. Mr. Macy, on behalf of the subcommittee, I would like to compliment you on a very fine presentation. This appeared to be a very simple proposal, but from your explanation, it is not so simple, and I am quite sure that members of this subcommittee will have some interesting questions to propound to you, and to your associates.

First, the Chair has prepared several questions which I would like to present to you in order to develop the record on this legislation.

In advocating the adoption of this proposal, you state that the civil service system fails to provide an adequate level of benefit to those with relatively short service, and that considerably improved protection would be afforded up to the time long service is completed. In the context with which you use these terms, can you tell us at what point in length of service an employee ceases to be considered a short term and at what point, subsequently, is considered a long term?

Mr. MACY. The answer to that is conditioned to an appreciable extent by the salary levels that are involved. What we are primarily encompassing in our use of the term "short term" are those with 5 years and less service, and those in the lower pay brackets who have service beyond 5 years, but do not have enough service to afford them benefits that come up to the social security levels. I would say that by long term, we are primarily talking about those employees with service in excess of 20 years, who are particularly well benefited by the civil service retirement system, which bases its annuity on length of service, and on the high 5 years of salary, so that this plan is primarily one to fill a gap that exists for the short-service people and those that are compensated at lower salary and wage levels.

Mr. DANIELS. In its recent report, the President's Cabinet Committee on Federal Staff Retirement Systems, was of the opinion that the deficiencies in the civil service retirement system could be most effectively remedied by direct social security coverage of all employees under the Federal retirement system. Now, as a member of that Panel, Mr. Macy, would you give us the benefit of your thoughts on that approach, and why such an approach has not proven acceptable?

Mr. MACY. Primarily because of two things. First, the cost that would be involved in a program that would add social security on top of the civil service retirement system. This has been proposed from time to time in the past, and the costs have been of such a magnitude, and the financing would be of such difficulty, that it has been judged infeasible.

The second reason is that it would be extremely difficult to deal with the benefit structure if you had both systems functioning together in full. It would create some windfalls, and there would still be some difficulties in dealing with what would amount to duplicate coverage. The feeling was that although this would appear to be the most desirable approach, and really one that has been sought for some time, that these two problems were too great, and consequently, the Cabinet Committee looked at ways of primarily bringing about a relationship between the two systems that would take care of those employees most disadvantaged by the working of the social security—or of the civil service retirement system, who could be benefited by social security coverage, and came up with this particular proposal.

I think it is important, too, for us to remember that the Civil Service Retirement Act, enacted by Congress in 1920, was one of the first major staff retirement systems, in that it preceded the enactment of the Social Security Act by about 15 years. During those 15 years, the Retirement Act was amended from time to time to improve its provisions, and from the date of the Social Security Act forward, there has been a number of studies to see how the two could be interrelated. There was some concern on the part of employee groups and friends of the civil service retirement system in those early years, that the social security system would take over the civil service retirement system.

Mr. DANIELS. But they were based on two different principles, were they not?

Mr. MACY. They were based on two different principles. The social security principle is basically one of social insurance to provide the individual with benefits when his income is reduced or terminated due to retirement, disability, or death. And this is a benefit that is fixed at a particular level, and does not fluctuate with length of service or materially with amount of salary.

The civil service retirement system is a staff retirement system, which accrues benefits over the span of service, and in relation of salaries paid. In the private sector, the experience has been that the staff retirement system, for the most part, came subsequent to the passage of the Social Security Act, and consequently you will find that most industrial pension plans are built on the base of the social security system, and tend to be related to it in terms of the current benefits being paid under social security, whereas in the Federal Government, the situation is reversed.

We have had as a base the staff retirement system, and what we are proposing here is the addition of certain features of social security in order to close certain gaps, and to assure that a certain minimum level of benefit is available to Federal employees that matches the benefit that is available in social security.

Mr. DANIELS. But the proposal before us today is a departure from the concept upon which the Federal retirement system is based, is it not?

Mr. MACY. Yes, it is a departure in the sense that it works in for the first time, provisions from the Social Security Act, and injects this element of social insurance, but I might add to that answer, Mr. Chairman, that through the years the Congress has liberalized civil service

retirement system in such a way that it has incorporated into that plan many of the benefits that are also in the social security plan. The survivorship feature was added subsequently, and from time to time, other benefits have been added, so that as the civil service retirement system has grown, the relevance of the social security system as an added—as a totally added program, has become less important.

Mr. DANIELS. The report of the Cabinet Committee states that by increasing the  $1\frac{1}{2}$ ,  $1\frac{3}{4}$  percentage multiplier of the existing retirement law to a flat 2 percent multiplier, the annuities of short-termers would be raised beyond that which is justified by their service.

Now, Mr. Macy, in your letter to the Speaker of the House on March 6, which transmitted the proposal before us today, you state that the existing retirement system provides an inadequate level of benefits to those with relatively short service.

Would you disagree with my observation that these statements are somewhat inconsistent?

Mr. MACY. No; I don't believe so. Certainly they are not intended to be. The President's Cabinet Committee considered very carefully the proposition of a possible change in the computation formula for civil service annuities, with the view that if the rate were increased from  $1\frac{1}{2}$ ,  $1\frac{3}{4}$  percent, or 2 percent to some other figure, that it might provide added benefits for those at the lower levels and with shorter service, but it still would not take care of those who have not had sufficient service to vest benefits in the civil service retirement system.

It would still leave that particular gap, and those who would be benefited in such an increase in computation, would also be those who are in the longer service category, and who have very good to excellent annuities at the present time.

Mr. DANIELS. The Cabinet Committee estimated a cost of \$200 million to provide a straight 2 percent multiplier. Now, inasmuch as the proposal under consideration would involve the cost of \$280 million, would not the cost of a straight 2 percent multiplier be less?

Mr. MACY. The estimate on the 2 percent multiplier for the full period is now about \$231 million at present levels.

It is our estimation that if the benefit levels proposed in this bill were applied, and you then had 2 percent for the computation factor, that the increase would be somewhere in the neighborhood of about \$170 million beyond the cost in this plan, because many of those who would benefit from the 2-percent plan would not be covered by the guaranteed benefit level and therefore, you would not have an offsetting dollar situation.

Mr. DANIELS. You say \$170 million?

Mr. MACY. \$170 million on these levels. The estimate is that somewhere around \$60 million would be overlapping and offsetting, but that there would be a net increase beyond this of about \$170 million. Now, those are just quick estimates.

We have not run this through too complete a check, but that is our initial estimate.

Mr. DANIELS. Mr. Henderson?

Mr. HENDERSON. Mr. Chairman, thank you for the opportunity.

Mr. Macy, I would like to refer to the portion of your statement which pertains to foreign nationals. You say they are not covered by the social security system, and of course, with just that, I think I would be satisfied. But you continue to say many of them with short service would obtain an unwarranted advantage that would be unduly high in foreign countries. I don't quite understand. How would they obtain unwarranted advantage under this guarantee if they are not covered by social security?

Mr. MACY. Well, the point is that the guaranteed minimum would not apply to the foreign nationals.

Mr. HENDERSON. Will they gain any unwarranted advantage, then, on the enactment of the legislation?

Mr. MACY. Well, if they were given coverage under social security, which this does not propose, they would be getting benefits substantially in excess of those that are available in most of the countries in which they reside.

Mr. HENDERSON. Are we, by determination of this bill, eliminating any of the foreign nationals who are covered by social security?

Mr. MACY. No; none of them are covered by social security.

Let me be completely clear on that. At the present time, no foreign nationals in the employ of the U.S. Government outside the United States are covered by social security. Some of them are presently covered by civil service retirement in those instances where there has not been an agreement negotiated with the home country that provides for the U.S. Government to pay whatever the local social security contribution is. Generally the policy of the Defense Department that has the bulk of these employees abroad is to try to negotiate such agreements where the country has a social security system of its own.

Mr. HENDERSON. Well, I don't want to belabor this, but it seems to me the basic question here for the foreign nationals is whether or not they are covered by the social security law. I just wondered why it was necessary in this law, and looking into the future, if we would cover them by social security, we would have to then amend this act, wouldn't we?

Mr. MACY. No, if they were to be covered by social security, the Social Security Act would have to be amended.

Mr. HENDERSON. Mr. Macy, if I put myself in the position of a long-term civil service employee who had rights under the Civil Service Retirement Act, and a proposal was before Congress—as many of us have introduced and some of which have been enacted—to bring in other persons, including those persons whom the administration from time to time has said should not be brought in, it would be my feeling that this was not fair to me, having that vested interest. It would tend to dilute my vested interest, would it not?

Mr. MACY. No, the vested interest in the civil service retirement fund would continue.

Mr. HENDERSON. Then the objection to it is that it increases the Government's liability to pay those vested or guaranteed rights under the Civil Service Retirement Act, doesn't it?

Mr. MACY. Well, really the objection to which you refer, is that it encompasses, in the definition of Federal service, service that has not been with the Federal Government. It has been with a State,

a locality, or some other group. In the case of the agricultural employees that were brought in in 1960, these are not even public employees, technically.

Mr. HENDERSON. Haven't we also had the argument that if we assume the obligation to pay the benefits without a pay-in, that we reduce the retirement fund by such pay-outs?

Mr. MACY. Oh, yes. You are increasing the obligation on the fund by adding service which was not paid for, either by the individual or by the Government. Now in some of these proposals, it has been recommended that the individual deposit in the retirement fund the equivalent of the deductions that would have been necessary for that period of service, but you still would have the Government's obligation that would be accumulated.

Mr. HENDERSON. Now, I want to look at the other side. As I see this, if I were working in industry under the social security system for 30 years, could it not logically be argued that by giving these guaranteed benefits to the Federal employees that we are doing the same thing over on the social security side to the social security trust fund, that we have been opposed to doing by bringing the non-Federal people in to the Federal retirement system?

Mr. MACY. No; because under the transfer of credits aspect of this, the cost of the period of Federal service, which is credited for social security computation, would be transferred from the civil service fund to the social security trust fund.

Mr. HENDERSON. I think you are absolutely right, but I would warn that the Members of Congress have to be alerted to the facts of your proposal here, or else there is going to be a hue and cry among social security workers over the country that we are doing what we in the civil service retirement system don't want done to our side of the picture.

Thank you, Mr. Chairman.

Mr. DANIELS. The gentleman from North Carolina, Mr. Broyhill.

Mr. BROYHILL. Thank you, Mr. Chairman. This cost of \$280 million will be paid for out of appropriations, is that correct?

Mr. MACY. This is the level cost. In other words, this is the annual cost projected actuarially out into the future.

Mr. BROYHILL. This is the annual cost?

Mr. MACY. Well, it is the level annual cost. This is what the level cost would be as computed by the actuary going out into the distant future.

Mr. BROYHILL. How many years is that?

Mr. MACY. The first year cost, for example, the first fiscal cost, which would be half the year, is \$3 million. The second full year's cost would probably run from \$12 to \$15 million, but it builds up as you accumulate numbers of individuals under this plan, and so the cost that we are presenting here is that long-term cost. Now, in answer to your question, the cost of this plan would be paid for out of the civil service retirement fund. This, in effect, is an added benefit out of that fund.

Mr. BROYHILL. Well, how would you make up the resources in the civil service retirement fund? Would this be asked for from appropriations?

Mr. MACY. The administration has a proposal which is also incorporated in the Cabinet Committee report for a new approach to financing, which would finance the normal cost, meeting the normal cost of retirement, by the contributions of the employee and the Government, and to have built into any future liberalization of benefits, a schedule of appropriations that would have to be made in order to finance that liberalization.

Now, in further answer to your question, under existing law, if there were no new law passed with respect to retirement financing, it would be necessary to finance this program with appropriations, because the so-called Thomas rider prohibits any liberalization of benefits which will drain the fund.

Mr. BROYHILL. You are saying that somewhere down the line, we would need appropriations to make up this added cost?

Mr. MACY. Yes. Either appropriations or an increased contribution by the Government and by employees. You see, at the present time, the normal cost represents approximately 13.86 percent of payroll, the normal cost of the retirement program. That, you see, is not quite met by  $6\frac{1}{2}$  plus  $6\frac{1}{2}$ , the employees' contribution and the Government's contribution, so at some points, in order to finance Government's cost, it will be necessary to increase those contributions.

Mr. BROYHILL. Apparently, in this plan you are recommending to the subcommittee, you have protected the social security fund adequately, but I have been one who has been concerned about the Government employees' retirement fund. I have been reading reports of late that the fund is actuarially in the red, and that we may have to take some drastic action to bring it into balance. That is why I was directing this question to you, as to what this plan would do to the actuarial soundness of the civil service retirement fund.

Mr. MACY. This would increase the demand on the fund, and would further emphasize the necessity for a new financing plan, along the lines of the plan that was in the Cabinet Committee report. I have indicated to Chairman Daniels the administration is in the process of the final drafting of a proposed retirement fund financing plan, which will be forthcoming in the next 2 or 3 weeks, and I believe, in line with what you say, that it is important that at this session we also consider retirement financing, and that this should be done even if we did not have this proposal before us because we are in fact at the present time carrying an unfunded liability of almost \$48 billion. Not that that unfunded liability needs to be funded, but we need to recognize the importance of our financing, particularly in connection with any liberalization.

Mr. BROYHILL. Now, if this committee and the Congress approves this legislation, H.R. 6784, and subsequently the Ways and Means Committee reports social security legislation which calls for less benefits than are recommended by the President, does that mean this legislation will have to be amended, or will the future benefits be equal to those in the social security law as passed?

Mr. MACY. Your first point is right.

If the Ways and Means Committee of the House, and the Finance Committee of the Senate, the two bodies, act to reduce the benefit levels in H.R. 5710, it would be necessary to change the tables that are in H.R. 6784, in order to conform with those benefits, and it would be necessary

in the future, when the Social Security Act is amended, to apply new benefit rates, that the Civil Service Retirement Act would have to be amended also in order to conform with those rates, so really we do have to function in tandem with the two bills in order to achieve this.

Mr. BROYHILL. Would it not be better, then, for us to go ahead and hold our hearings and get our ducks in a row, so to speak, and then wait on the social security bill to be passed before acting on this?

Mr. MACY. I would feel that it is clearly desirable to keep in very close communication with the Ways and Means Committee, and that probably what you suggest, it would be well to await their action before reporting a bill out along these lines.

Mr. BROYHILL. No further questions, Mr. Chairman. Thank you, Mr. Macy.

Mr. DANIELS. Mr. Hanley.

Mr. HANLEY. Mr. Chairman, Mr. Macy, I personally am most favorably impressed with the general intent of this proposal. As I see it, it would erase a number of longstanding inequities, and I would hope that the proposal would meet with the approval of Congress.

Thank you.

Mr. MACY. Thank you, sir.

Mr. DANIELS. Mr. Johnson.

Mr. JOHNSON. Thank you.

Mr. Macy, I think you have gone out of your way to try to make this as clear as possible. I might say that while I was in the Pennsylvania Legislature, I believe we provided both the added-on system; that is, a worker in Pennsylvania today, I believe, has not only the State retirement, but also social security.

Mr. MACY. That is true in Pennsylvania, and it is true in most States, but I think you will find that most States do not have as liberal a retirement system as the one in the Federal Government.

Mr. JOHNSON. And I believe also in Pennsylvania, if you want to go into the so-called added-on system, the employee has to do what they call "purchase the offset." It is not entirely free.

Mr. MACY. That is my understanding, and I think in the case of all State employees, there was an election on the part of the employees as to whether or not they were to enter at the time of the amendments, back in the 1950's, but most other public employees, other than Federal employees do now have social security coverage.

Mr. JOHNSON. Yes. And there is apparently one mandatory phase of this proposal in that this person that isn't entitled to civil service retirement and leaves the Government, and demands and gets the refund, it is mandatory that you will deduct from the money that he will receive social security from June 30, 1966, his share, isn't that right?

Mr. MACY. That is right. In other words, we would keep in the civil service retirement fund an amount equivalent to the tax that the individual would have paid had he been covered by social security during that period of time.

Mr. JOHNSON. So to that extent, you would be saving this employee from an indiscretion on his part, so that 10 or 15 years from now, he will be thankful to us that we made that mandatory requirement, so to that extent, there is a mandatory phase in the program, is that right?

Mr. MACY. That is correct, and it would mean that this group of 80 percent that withdrew their funds would have some coverage which they might not have, particularly during the initial stages after they left Federal employment. To me, one of the great benefits of this plan is to provide some protection for the individual's family, where he is improvident enough to pull out and doesn't have any coverage for a period of time.

Mr. JOHNSON. Now, I want to ask you some questions on its application. On page 4 of your statement you say that to assure six quarters of coverage required for OASDI eligibility; that is the law in order for a person, let's say, to become qualified for social security. Do they only have to have under the present law six quarters of coverage, covered employment, to be permanently in the social security system?

Mr. MACY. That is correct. In order to establish—

Mr. RUDDOCK. Excuse me just a minute. You used the word permanently. The six quarters of coverage makes a person currently insured. Many of their payments are based on being currently insured. To be permanently insured one needs 40 quarters, but permanently insured is rather an obscure requirement. Most of their payments are on a currently insured status.

Mr. JOHNSON. Well, let's take a person that comes to the Government service, and say they do have just 2 years of social security coverage, and 4 years of our retirement coverage, that would be 6 years, and that person should leave the service, and you will make proper deductions, would he be entitled under the social security law to social security when he reaches age 65, with just 6 years of coverage?

Mr. RUDDOCK. That would depend on the age at the time of separation. Under social security one is fully insured if he has at least one quarter of coverage for each calendar year after 1950, or after the year in which he attained age 21, and before the year in which he attains age 65—or age 62 for women—or for the year in which he dies. In other words, if one reaches age 65 in 1970, 20 years having gone by since 1950, he would need 20 quarters of coverage to be fully insured under social security. So that whether 6 years, which would be 24 quarters of coverage, whether that would qualify him, would depend on when he reaches age 65, or on when he dies. It would depend upon the year in which the event happens.

Mr. MACY. But in that example, if after that amount of service, he were to die, he would have social security eligibility for survivorship, whereas he would have no eligibility under civil service for survivors.

Mr. RUDDOCK. I might also point out that if he had had 2 years in private industry, and worked for the Federal Government for 4 years, and when he left the Federal Government if he is not yet age 65, the chances are excellent that he will be working in private industry, and be acquiring more quarters of social security coverage. A study we made a few years ago showed that of those who qualify for deferred annuity, under the civil service system, about 80 percent of them, by age 62, have earned additional social security benefits. Most persons don't leave private industry prior to, let's say, the middle sixties



Mr. JOHNSON. Let's take a typical example, let's say a young man 38 years of age, has been with the Government for 15 years, becomes deceased, and leaves a widow and three children under age 18. First question, what would the rights of the widow be under our civil service retirement, secondly, what would the rights be of this widow and her children if this becomes a law?

Mr. RUDDOCK. May I ask one more question, sir? What is the average salary for a 5-year period during this time?

Mr. JOHNSON. Well, let's take the figure of \$6,000.

Mr. RUDDOCK. That is indicated on the table Chairman Macy used. If he has 15 years of service—I am sorry you picked 15, because we have 12 and 20. If he has 12 years of service, and dies, leaves a widow and three children under the present Civil Service Retirement Act, the total benefits would be \$2,652. Under this proposal, it would be \$4,560.

Mr. MACY. To carry that on, suppose this same event occurred after 20 years. He still would receive under civil service retirement coverage—his survivors would, a benefit substantially less than social security. It would be \$3,180. And it would be necessary to have over 40 years of service in order to match the amount that would be available under social security.

Mr. JOHNSON. Now, may I comment? This widow, then, age 38, as I am saying, she will receive \$2,652 under our present civil service retirement, if we don't pass this law, and she will get that as long as she remains a widow, isn't that true?

Mr. RUDDOCK. She will receive that as long as she remains unmarried, and as long as she has three children who are qualified to receive benefits. The benefits to a child basically stop at age 18, except they do not stop at age 18 if the child is a full-time student. If the child is a full-time student, they continue to the end of the school year in which the 22d birthday occurs. The benefits do not stop at age 18 if the child is disabled, and incapable of self-support. At the time at which one child has his benefit discontinued, either by reaching age 18, or by being beyond that age and dropping out of school, then the widow and the remaining two children would receive under present law, \$1,992.

When there is only one child eligible for benefit, then the widow and that child receives \$1,332. After there is no child eligible for a benefit, just the widow, then she would get under present law, \$672 a year.

Mr. JOHNSON. Well, if this becomes the law, she would get \$4,560 a year, I take it, until the youngest child becomes age 18, and then those children go off social security, and she loses her social security, she then would go back to \$2,652, which she would be entitled to under the Federal retirement.

Mr. RUDDOCK. From the time the last child is eligible for a survivor benefit, until she reaches age 62, if she were under social security, she would get nothing. Under the civil service retirement system, she would get \$672 a year, and she would receive that same amount under the proposal. However, when she reached age 62, then her benefit would go to \$1,788 under this proposal.

Mr. JOHNSON. Thank you.

Mr. DANIELS. Mr. Thompson.

## TRANSFER OF RETIREMENT CREDITS

Mr. THOMPSON. Mr. Chairman, I have just one question, but I would like to join with the others in congratulating Mr. Macy on his presentation, because certainly it answers some of the questions which I had. I do have a question, where a person is at the same time a Federal employee, and maybe holding a second job, and if he were to leave Federal service, withdraw his funds, the amount of his social security would be withheld, would this bill in any way preclude his making a claim on his income tax for a double social security claim and being compensated.

Mr. RUDDOCK. There would be no way, sir, in which he could get back that amount. We call this a tax equivalent. That is a convenient method of computing the amount, but it is not a tax. It is not treated as a tax. It is merely a reduction in refund benefits. In other words, we are proposing to lower the level of refund benefits under this system. We are making that proposal in order to help finance the cost of protection which is added by this bill, but since it is not a tax, he could not, on his income tax return claim that he had paid the social security tax and get back any part of it.

Mr. THOMPSON. Thank you.

Mr. DANIELS. Mr. Dulski would like to ask a question.

Mr. DULSKI. Mr. Macy, will there be an actual transfer of funds from the retirement fund to the social security trust fund, or is this a budgetary item?

Mr. MACY. The way it would work as we see it, there would be a determination each year by the Civil Service Commission and the Secretary of Health, Education, and Welfare as to the amount of benefits attributable to social security benefits related to Federal service, and a transfer would be made by Treasury of that amount on the books of the trust fund.

Mr. DULSKI. Would that amount be included in the budget, and would an appropriation be required?

Mr. MACY. No; there would be no appropriation with respect to this. This would really be a matter of bookkeeping between the two funds. This would be a credit to the social security fund, and in effect, a withdrawal against the civil service retirement fund.

Mr. DULSKI. Well, if this is only a book transfer, then where would you get the money?

Mr. MACY. Well, the money would be from the civil service retirement fund, which at the present time is at a level of about \$16 billion, and it would be a reduction in that level for the payment of that proportion to the other fund. And the other fund would benefit by that amount. The civil service fund would be reduced by that amount.

Mr. DULSKI. I don't know whether Mrs. Griffiths spoke to you about the bill she introduced, H.R. 643, to correct the great inequality for women under the retirement system. Will that be adjusted in this legislation?

Mr. MACY. No, sir; that would require separate legislation.

Her bill incorporates a number of improvements in law and in regulation, in order to assure that there is complete equality between the sexes, insofar as benefits are concerned, and we do not have the provision as it relates to the civil service retirement program in this legislation.

We do, however, approve of what she proposes to do insofar as the legislation is concerned, and it represents a very limited increase

in obligation against the fund. Do you recall what the precise amount is, Mr. Ruddock?

Mr. RUDDOCK. I believe it is about \$7 million a year.

Mr. DULSKI. In addition to the \$280 million?

Mr. MACY. Yes, it would be independent of the amount, here. It would be in addition to it.

Mr. DULSKI. Thank you very much.

Thank you, Mr. Chairman.

Mr. DANIELS. Mr. Macy, what happens in a case where there is a transfer of funds, where the man has not served in Federal service 5 years; and another where his rights are vested, and he decides to subsequently withdraw it, and they later become subject to the civil service retirement system upon subsequent employment?

Mr. RUDDOCK. We need to remember, I believe, that there is no transfer of the credit until the individual files an application for a social security benefit, and if he is still alive, he would do that presumably at age 65, so there has been no actual transfer occurring. We have paid a refund, and withheld the tax equivalent; he comes back in Federal service and he wants to get credit for his past service. He would have to pay back into the fund exactly the amount he withdrew, plus interest on that amount. In other words, the tax equivalent is still in the retirement fund, and if he pays back what he withdrew, then his account is restored in full.

Mr. DANIELS. Just the prior Federal service would be tacked on to his subsequent service?

Mr. MACY. Yes. And that is rather frequently done now, if an individual returns, he will come to Mr. Ruddock and ask him how much he owes, and then make a deposit.

Mr. DANIELS. Then actually, in such a case, he would not receive any social security benefits?

Mr. RUDDOCK. No, sir.

Mr. DANIELS. All his Federal service would be under the Federal retirement system?

Mr. RUDDOCK. Yes. Now, if he had another separation from Federal service, he could potentially have a situation in which he would be eligible for transfer of credit, and he could do this any number of times, but the actual transfer would never occur, until he is filing an application for social security benefits.

Mr. DANIELS. Well, where he has more than 5 years' service, desires to withdraw his funds, which you will permit him to do, less whatever social security taxes he would have to pay, and later becomes disabled, and he applies for social security benefits, he would be entitled to them, would he not?

Mr. RUDDOCK. Yes; assuming he meets their eligibility requirements.

Mr. DANIELS. Well, suppose he is cured of that disability, subsequently, and suppose he is reinstated in Federal service?

Mr. RUDDOCK. Well, there is a provision that once those wage credits have been used by social security for payment of benefit, then they will not be retransferred. He is a social security customer from that point on. Now, he could, when he reenters Federal service after recovery, again have enough Federal service to qualify for a benefit under the civil service retirement system.

Mr. DANIELS. Well, once he collects social security benefits, then he is a social security beneficiary from that point on?

Mr. RUDDOCK. With respect to that service; yes.

Mr. DANIELS. And he goes back and accumulates more rights to be entitled to a civil service benefit, then he can be eligible?

Mr. MACY. Right.

Mr. RUDDOCK. But once social security uses those wage credits for payments from that system, then from that point on, the service is treated as if he had been in private industry.

Mr. DANIELS. I have one further question. It would appear from a casual reading of the legislative draft, that minimum benefits are designed to apply only to immediate and disability retirees and their survivors. Is this true?

Mr. RUDDOCK. Well, it is not proposed to extend the guaranteed benefit level to the deferred annuitant.

Mr. DANIELS. I am not sure that I understand your answer, Mr. Ruddock.

Mr. RUDDOCK. In the case of an individual who has more than 5 years' service, who leaves his money in the civil service retirement fund, waiting to receive a deferred annuity at age 62, the deferred benefit will be the earned benefit. It will not be at a guaranteed higher level.

Mr. DANIELS. Why not?

Mr. RUDDOCK. Largely because the individual who leaves, and who is waiting for an annuity, will be acquiring wage credits in private industry.

Mr. DANIELS. I assume he is going to be reemployed. Suppose he isn't?

Mr. RUDDOCK. Well, there is an excellent chance—our survey showed that he will probably be ending up entitled to a social security benefit.

Mr. DANIELS. How about those who do not?

Mr. RUDDOCK. They will receive just what benefit is related to their service. In other words, there is no guarantee of a benefit over and above the earned benefit for a person who waits for a deferred annuity. Now, that individual would have the option of withdrawing his contributions, having credit for that service transferred to social security, and receiving whatever benefit level would be payable to him under the social security system.

Mr. DANIELS. Mr. Ruddock, if he doesn't exercise that option, he doesn't get that minimum guarantee, does he?

Mr. RUDDOCK. That is right, sir. It is not proposed in this legislation.

Mr. DANIELS. Does the social security system provide automatic benefits to a retiring worker's family, as opposed to the civil service retiree's right to elect to minimize or forego the spouse's protection?

Mr. RUDDOCK. Yes; the social security has provision for a wife's supplement, which is payable, I believe, when the wife reaches age 62. They have provision for payment of benefits to children of a retired worker when those children are under age 18, or beyond that age, if they are full-time students.

Mr. MACY. The amendments proposed this year would also provide some benefits for dependent parents if they existed.

Mr. DANIELS. Well, in view of your answer, then, why are non-designated spouses excluded from some areas of participation?

Mr. RUDDOCK. I don't understand the question, sir.

Mr. DANIELS. I am going to ask Mr. Devlin, our staff member, to pursue the question further.

Mr. DEVLIN. I think you have, in all probability, answered this, to an extent. I think that the real gist of the question is—where a retiring employee has failed to designate his spouse as a survivor annuitant—the terms of the proposal would not grant a nondesignated survivor an automatic annuity benefit?

Mr. RUDDOCK. Let me first apologize in being so slow in understanding the question. The social security system does not pay any benefits on the basis of an election, they are automatic, depending upon the status of the individual. Under the civil service retirement system, when a married employee retires, the benefit payable is a reduced annuity with benefit to spouse survivor, unless the retiring individual says, "I do not want a reduced annuity, I do not want the survivor protection." Now, as this proposal comes to the committee, as it exists in the bill introduced, if the individual has said, "I do not want a survivor benefit payable on the basis of my Federal service," and he has said this at retirement, then we do not propose to pay one any way. If he has said, "Yes; I want a survivor benefit, but not based upon all of my annuity, I want it based only on the first \$2,400 of my annuity," then the proposal says, since he limited the benefits payable to the survivor, we would not propose to pay a guaranteed-benefit level over and above what he had specified.

Mr. DEVLIN. What you propose to do is honor his election, and not go beyond that?

Mr. MACY. That is right.

Mr. RUDDOCK. That is right.

Mr. DANIELS. Mr. Johnson.

Mr. JOHNSON. Are you sure you are correct in your computing this first step to cost \$155 million? It doesn't seem like there will be enough people qualified for it to cost that much money.

I could see where the second step, the guaranteed income would cost quite a lot—

Mr. MACY. Well, this is level cost over time, so really what we have done is flatten out a rather steep rise, and get a level cost over time. The initial year appropriation for this, if it went into effect January 1, 1968, would only be for 6 months. We estimate it only to be about \$3 million, and the first full year in effect, fiscal year 1969, would come to \$12 to \$15 million.

Mr. JOHNSON. Both plans. Both steps?

Mr. MACY. This is for the guaranteed-benefit level.

Mr. RUDDOCK. May I illustrate, sir, just how these funds grow? Just 20 years ago we had a total of 125,000 people receiving civil service retirement benefits, and now we have over 800,000. Now, we would start off here in the first year, and because of the January 1 effective date, we would have just a very few people who would qualify, but in the next year they would still be on the annuity roll, and we would add a new group, plus most of those remaining from the first year and second year. The costs we have estimated are estimated in perpetuity, but it is roughly average annual cost, say, over the next 100 years.

Mr. MACY. I appreciate your asking the question, because it could be assumed that this figure here is the first year cost, and it clearly is not. And it would be a long time before you would get up to this level cost, assuming that you are projecting this in to perpetuity.

Mr. JOHNSON. That is the equivalent of a 1-percent raise in salary of Federal workers, and I suppose Federal workers would rather have the 1-percent raise in salary than this plan.

Mr. MACY. Yes. It actually would be about 1½ percent, but it clearly does not involve that in terms of today's payroll by any means. In fact, the initial cost the first year is very small, but we felt that in order to give you the complete picture that you should know what the level cost would be over the long period of the future.

Mr. DEVLIN. Mr. Macy, even though the last surviving child may be eligible to receive civil service retirement benefits after age 18, or until age 22, if he or she is a student, it is proposed that the widow's guaranteed benefit be reduced to her normal benefit when such a student-child reaches 18. Now, is this based upon the reasoning that social security benefits to the widow cease upon the last child's attainment of age 18?

Mr. MACY. Yes.

Mr. DEVLIN. Are not student-children covered until age 22 under the social security system?

Mr. RUDDOCK. Yes; but it is my understanding that when they did that, they did not change the terminating date of the mother's benefit.

Mr. MACY. It is just the benefit to the child for that period of student experience.

Mr. DANIELS. They can continue under social security after age 18, provided that the child is a bona fide student.

Mr. MACY. Just to the child. Does not include the widow.

Mr. DEVLIN. But the widow's benefit would terminate under social security, and any guaranteed benefit would be reduced to the widow's earned annuity, with the child's social security benefit continuing through the 22d birthday?

Mr. MACY. That is right.

Mr. DEVLIN. And in the case where the widow was then under age 62, the widow's benefit would be 55 percent of the earned annuity?

Mr. MACY. That is right.

Mr. DEVLIN. Until she reached age 62, at which point she might be entitled to a reinstatement of certain guaranteed minimum benefits?

Mr. MACY. That is right. At age 62, because of the social security benefit pattern, she would be eligible to go to that guaranteed level, if her annuity was below it at that point.

Mr. DANIELS. The legislation under consideration is not applicable to Members of Congress who have served the short period of time, that is, less than the 5-year period, is that right?

Mr. MACY. That is right. We felt that any action for coverage of Congress should come from the legislative branch.

Mr. DANIELS. Would you recommend it?

Mr. MACY. I would recommend it.

Mr. DANIELS. You feel we should be under it?

Mr. MACY. Yes.

Mr. DANIELS. Particularly when they do not acquire vested rights under the Federal retirement system?

Mr. MACY. That would be my recommendation.

Mr. DANIELS. What would be your recommendation with respect to legislative employees? They do not come under social security, as law exists today. They have an election if they want to participate under the Federal system.

Mr. MACY. Well, I would recommend that if they had an opportunity to go under civil service retirement, that the same provisions apply to them as apply to executive employees.

Mr. DANIELS. Am I correct in assuming that the proposed legislation is not applicable to retirees or survivors now on the civil service annuity rolls?

Mr. MACY. That is right. In other words, it is applied prospectively with a starting date of June 30, 1966.

May I add, Mr. Chairman, that with respect to legislative branch employees, the bill as written covers them. We did not include Members of Congress, but we did include legislative employees.

Mr. DANIELS. Yes, it transfers their credits and provides minimum benefits to them.

Well, that concludes this morning's hearing. I want to thank you gentlemen very much. I think we now have a better understanding of the legislation proposed.

Mr. MACY. Thank you. We appreciate the opportunity to testify.

Mr. DANIELS. The committee will adjourn until 10 o'clock tomorrow morning.

(Whereupon, at 12 noon, the hearing was adjourned, to reconvene at 10 a.m., Wednesday, March 22, 1967.)

## TRANSFER OF RETIREMENT CREDITS TO SOCIAL SECURITY SYSTEM

WEDNESDAY, MARCH 22, 1967

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON RETIREMENT, INSURANCE, AND HEALTH  
BENEFITS OF THE COMMITTEE ON POST OFFICE AND CIVIL SERVICE,  
*Washington, D.C.*

The subcommittee met at 10:20 a.m., in room 346, Cannon House Office Building, Hon. David N. Henderson (acting chairman) presiding.

Mr. HENDERSON. The Subcommittee on Retirement, Insurance, and Health Benefits will come to order.

The subcommittee will again meet in open session for the purpose of receiving testimony from public witnesses with respect to H.R. 6784, an administration proposal to remedy deficiencies in retirement coverage, and benefit levels of civilian employees.

It is the desire of the subcommittee, as far as possible, to conclude these hearings promptly. In view of the fact that approximately a dozen witnesses have asked to testify, the Chair feels it desirable for each witness to submit his entire statement in the record and highlight the main portions of his testimony.

If each witness will confine himself to 8 or 10 minutes I believe we will be able to attain our objective.

The first witness is Mr. Patrick J. Nilan, national legislative director of the United Federation of Postal Clerks, AFL-CIO.

Mr. NILAN. Thank you, Mr. Chairman. We will be very pleased to cooperate with the subcommittee in order to expedite the hearings, and if it is permissible, I will introduce myself and Mr. Thomas, and paraphrase my statement.

Mr. HENDERSON. Without objection, your statement will be printed in the record in full, and you may proceed with your comments.

Mr. NILAN. Thank you.

(The prepared statement is as follows:)

PREPARED STATEMENT OF PATRICK J. NILAN, NATIONAL LEGISLATIVE DIRECTOR,  
UNITED FEDERATION OF POSTAL CLERKS, AFL-CIO.

Mr. Chairman and members of the committee, for the record, I am Patrick J. Nilan, national legislative director of the United Federation of Postal Clerks, AFL-CIO. I am very pleased to be accompanied this morning by Mr. Joseph F. Thomas, our national director of organization in regard to the pending legislation, H.R. 6784.

Mr. Chairman and members of the committee we speak in behalf of the Nation's 265,000 postal clerks for whom we are the exclusive national representative for labor-management relations with the Post Office Department. Our membership in the postal clerk craft are employed in post offices in 50 States, the District of Columbia, Puerto Rico, Virgin Islands, and Guam.



We appear here this morning in support of H.R. 6784, which proposes to amend existing civil service retirement and social security laws to provide improved minimum retirement benefits for Federal employees and their survivors. Enactment of legislation such as H.R. 6784 has been long overdue and our organization desires to express our appreciation and gratitude to the chairman and members of this committee for the prompt consideration of the pending legislation.

The presentation on March 21, 1967, in support of this legislation by Mr. John W. Macy, Jr., Chairman of the U.S. Civil Service Commission and Mr. Andrew Ruddock, Director of the Commission's Bureau of Retirement and Insurance, certainly provided an excellent analysis of the legislation. We commend these witnesses for the detailed and authoritative support given H.R. 6784 in their testimony.

Mr. Chairman, we also endorse H.R. 6784, and for basically the same reasons as expressed in previous testimony. In order not to be repetitious, we will concern our presentation with several suggested amendments to the pending legislation, as well as position statements related to the civil service retirement system and social security by our organization.

The United Federation of Postal Clerks, as well as the Congress, has been justly concerned for many years with the obvious deficiencies of the civil service retirement system in regard to disability and survivorship benefits for the younger employee in the postal and Federal service.

This is particularly true for such employees prior to the completion of 5 years of career Government employment. During this period of time the employee and his dependents have no benefits available in the staff retirement system if the employee becomes disabled or dies. H.R. 6784 proposes to correct these deficiencies through an exchange of credits with the social security system and we endorse this proposal.

The pending legislation basically would also provide improved benefits for employees participating in the civil service retirement system comparable with benefits granted employees in the private sector under social security. We understand such benefits would generally be adjusted for the Federal employee with more than 5 years and up to 20 years of service. We also endorse these provisions of H.R. 6784.

These minimum comparable benefits would provide badly needed protection to the younger or short-term Federal employee and his family, which we heartily support. However, Mr. Chairman, we would also like to suggest that the committee consider amending H.R. 6784 to include the provisions of H.R. 463, which had previously been introduced by the very able chairman of this subcommittee.

The provisions of H.R. 463 would provide equitable improvement in benefits for the long-term Federal employee by permitting him to determine his highest average pay for retirement purposes on the basis of 3 consecutive years of creditable service, rather than the present 5 years of service.

We also suggest the committee consider including the provision of H.R. 463 which would permit the annuity of an employee to be computed on the basis of a straight 2 percent of his average salary multiplied by his total service rather than the present 1.5-, 1.75-, and 2-percent formulas.

It is our understanding previous administration opposition to improving these two areas of long-term employee retirement benefits resulted from cost estimates related to permitting such benefits also for the younger short-term Federal employee. It would now appear that since improved benefits are being proposed to protect the short-term employee, then the improved benefits proposed in H.R. 463 could be provided for the long-term employee.

This is particularly true if it becomes necessary at any time in the future to consider increasing the employees' contribution to the civil service retirement fund, as any increased employee contribution would be paid by both the long-term and short-term Federal employee.

In conclusion, Mr. Chairman and members of the committee, the United Federation of Postal Clerks would like to state for the record that we are opposed to any consolidation or coordination of the civil service retirement system with social security under this or any other legislation.

Also, it is our understanding the pending legislation, H.R. 6784, would not restrict in any way the right of an individual Federal employee to be eligible for full and separate benefits under both systems. Providing, of course, that necessary credits have been earned and paid for, and are above the minimum benefit guarantees proposed in H.R. 6784.

TRANSFER OF RETIREMENT CREDITS

55

Thank you, Mr. Chairman and members of the committee for this opportunity to present the views of the United Federation of Postal Clerks. We have always appreciated the sincere interest by this committee and the Congress in the legislative endeavors of our organization.

**STATEMENT OF PATRICK J. NILAN, NATIONAL LEGISLATIVE DIRECTOR, UNITED FEDERATION OF POSTAL CLERKS, AFL-CIO, ACCOMPANIED BY JOSEPH F. THOMAS, NATIONAL DIRECTOR OF ORGANIZATION**

Mr. NILAN. For the record, I am Patrick J. Nilan, national legislative director of the United Federation of Postal Clerks, AFL-CIO. I am very pleased to be accompanied this morning by Mr. Joseph F. Thomas, our national director of organization in regard to the pending legislation, H.R. 6784.

Mr. Chairman, we want to commend the witnesses who testified yesterday, and we feel Mr. Macy and Mr. Ruddock did an excellent job in summarizing the legislation. Our organization endorses the bill and urges the committee to favorably report the legislation at the earliest possible moment.

We would also like to mention that we hope the subcommittee would consider the legislation that has been introduced by the distinguished chairman of this subcommittee; that is, H.R. 463, and consider the possibilities of including in the legislation a redetermination for average pay in considering annuities on the basis of 3 consecutive years of creditable service. We would also suggest the subcommittee consider the possibility of establishing a new computation formula based on a straight 2 percent of average salary, instead of the present formula of 1½, 1¾, and 2 percent in computing basic annuities.

Mr. Chairman, in conclusion, we would like to state, on behalf of our organization, that we are opposed to any consolidation or coordination of the civil service retirement system with social security under this or any other legislation. We also understand the pending legislation, H.R. 6784, would not restrict in any way the right of an individual Federal employee to be eligible for full and separate benefits under both systems. That is providing, of course, the necessary credits have been earned and paid for, and are above the minimum benefit guarantees proposed in H.R. 6784.

Thank you, Mr. Chairman, and members of the subcommittee, for this opportunity to present our views. We have always appreciated the sincere interest by the subcommittee in our legislative programs and organization representations. We certainly at all times stand ready to cooperate with the Committee on Post Office and Civil Service.

Mr. HENDERSON. Thank you very much, Mr. Nilan, and I am very appreciative of the statement you prepared, and the brief manner in which you presented it.

May I ask you if you have taken action to support the legislation before the Ways and Means Committee?

Mr. NILAN. Yes, sir; we are also submitting a similar statement in support of this legislation before Mr. Mills' Ways and Means Subcommittee on Social Security.

Mr. HENDERSON. I commend you for that. I have no questions to ask, and certainly would suggest that all persons interested in the

TRANSFER OF RETIREMENT CREDITS

legislation be sure at least to submit written statements to the Ways and Means Committee, if they are not planning to appear over there.

Mr. Hanley.

Mr. HANLEY. Mr. Chairman, I simply want to express my appreciation to Pat Nilan for his views on this legislation. I have no questions.

Mr. HENDERSON. Mr. Thompson.

Mr. THOMPSON. Mr. Nilan, I understand you support this legislation.

Mr. NILAN. Yes, sir.

Mr. THOMPSON. And I also understand you are opposed to a combining of civil service and social security.

Mr. NILAN. Yes, sir; our organization is historically opposed. We feel both the systems accomplish different purposes but would desire the civil service retirement system to remain completely independent of the social security system.

Mr. THOMPSON. Thank you.

Mr. HENDERSON. Thank you, Mr. Nilan.

Our next witness is Mr. John F. Griner, president of the American Federation of Government Employees. Mr. Griner is accompanied by Mr. Thomas G. Walters and Mr. Carl K. Sadler.

It is always a pleasure to welcome you, Mr. Griner, and you may proceed.

Mr. GRINER. Thank you, Mr. Chairman, and members of this subcommittee.

Mr. HENDERSON. Without objection, Mr. Griner's entire statement will be printed in the record at this point.

(The statement follows:)

PREPARED STATEMENT OF JOHN F. GRINER, NATIONAL PRESIDENT,  
AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES

The AFGE is heartily in favor of the objectives of H.R. 6784, which is designed to eliminate the serious current deficiencies of the civil service and social security retirement systems, especially those applying to Federal employees of shorter Federal service and/or lower income.

The President stated admirably more than a year ago, in his message to Congress, March 7, 1966:

"Among the many blessings which Americans can count is a corps of Federal civil servants that is unequaled anywhere in the world. Honest, intelligent, efficient, and, above all, dedicated; these men and women represent a national resource and a national asset."

Yet, under existing conditions it is precisely these civil servants who are being excluded from the benefits which every other American enjoys under the social security system, and this exclusion arises solely because they are Federal employees. They are being excluded, tragically in many cases, even when they have not yet qualified for benefits under Federal staff retirement systems, whether the civil service, foreign service, or railroad retirement system.

To eliminate these inequities the President, in his message of March 7, 1966, wisely recommended that present Federal retirement benefit discriminations against Federal employees be eliminated by a twofold approach. I quote him in full:

"We should guarantee that retirement, disability, and survivor benefits are at least equal to benefits payable under the old-age and survivors disability insurance program of the social security system.

We should provide for the transfer to the social security system of service credits of employees who die, become disabled, or leave Federal employment before becoming eligible for Federal retirement benefits."

The American Federation of Government Employees vigorously endorses these proposals.

TRANSFER OF RETIREMENT CREDITS

For this reason, the AFGE endorses H.R. 6784, the Daniels bill, which would enact these proposals into law.

The Daniels bill completely incorporates these concepts of equity and nondiscrimination for Federal employees in those of its provisions which concern the transfer of credits for Federal service for all Federal employees (1) who do not acquire any Federal staff retirement system benefits at all because of the shortness of their Federal service; or (2) who, having acquired Federal staff retirement benefits, forfeit these benefits by withdrawing their retirement contributions. These Federal employees, their wives and children now suffer very serious financial disabilities which the bill will correct.

The Daniels bill also goes far in meeting the other goal mentioned by the President in his March 7, 1966, message; that is, guaranteeing a minimum level of retirement, disability, and survivorship benefits at least equal to the social security system. But unfortunately, H.R. 6784, while eliminating much of the current inequity and Federal discrimination against Federal employees, stops short of the stated goal.

As I shall illustrate by example later in my testimony, under this bill a disabled Federal employee and his family, or a normally retired Federal employee and his family could still receive significantly less benefits while he was living than if his Federal service had been computed under social security. This discrimination will be especially severe for Federal employees in the lower salary or wage board schedules of earnings. For this reason, our joy over this bill is not unalloyed.

The AFGE is most disappointed that this excellent bill, which eliminates so much past inequity, fails to eliminate existing Federal discrimination against the lower salaried family man who is a Federal employee. All other categories of Federal employees are well provided for. Low-salaried bachelors who are Federal employees are well provided for. But the family, the wife and children, of the lower salaried Federal employee, is still excluded, is still denied the minimum benefits which would be available under social security as long as the husband lives. Under this bill the lower salaried retired or disabled husband must die before his family would be eligible for minimum social security benefits.

I do not believe that this is the real intention either of the President or of the Congress.

For this reason, I would like to propose for your consideration that, in all cases where the benefit payments to the family unit is lower than under social security, the benefit level be raised even while the husband is alive.

Only under this condition could the President's explicit proposals be carried out. Only under this circumstance would the conditions exist where, as the President said:

"We should guarantee that retirement, disability, and survivor benefits are at least equal to benefits payable under the old-age and survivors disability insurance program of the social security system."

Let me give you a graphic example of the anomaly that could still exist under the provisions of the otherwise very enlightened bill.

A man 21 years of age, with a wife and dependent child takes employment with the civil service of the Federal Government and works 4 years, 11 months, and 3 weeks at an average salary of \$4,000. He becomes disabled and must be retired. Under this bill, a transfer of credits makes it possible for him to retire on disability under the social security system. He would then draw, \$240 (of this \$120 for himself, \$60 for his wife, \$60 for the child). This is a great and notable improvement over the present system where this Federal employee and his family would receive absolutely nothing. But, let us now go further to see a remaining problem.

Let us suppose that this man served his Government loyally for 1 week more and his disability took place after 5 years and 1 day of civil service. He has now qualified for disability under the civil service system and his credits cannot be transferred.

And here we find a tragic and anomalous situation. Solely because this man has served his Government 1 week more, he and his family are penalized, they are financially discriminated against by the Federal Government. Under this bill, this man and his family would receive only \$133 (40 percent of \$333), or \$107 less than under social security.

We sincerely believe this is not the intention of the President or of the sponsor of this bill. Certainly, the AFGE cannot accept as a principle the concept that

solely because of 1 week's more Federal service, the disability retirement income of this man and his family should be reduced at all.

We most earnestly request this committee to modify H.R. 6784 to eliminate this kind of anomaly and to remove all Federal financial discriminations against Federal employees solely because they have qualified for benefits under the Federal staff retirement system.

The remedy is very simple. All that is required is that the Federal staff retirement system meet the social security system's minimum benefits for the man and his family while he was still alive as well as following his death.

In order to assure that this goal be achieved, the American Federation of Government Employees proposes that appropriate language be inserted in H.R. 6784 to assure these minimum benefits. This language may be added after section 3(1)(3) which appears as line 24, page 7 of the bill. The change could be made by changing the period to a semicolon at the end of subsection (3) on line 24, and adding the word "but," to be followed by a new subsection (4). The general sense of this proposed subsection would be as follows:

"(4) if the least of any of the foregoing is less than the minimum amount the employee and his family would collectively receive under the social security computation for both the employee and his dependents, the sum to be paid will be raised to be equal to the sum paid to both the worker and his family under social security."

Again, before closing, I invite the attention of the committee to the examples I am enclosing with this statement for entry into the record of the testimony of AFGE on H.R. 6784.

In closing, Mr. Chairman, I wish to express our gratitude for the opportunity we have had to appear here this morning to express our views.

Enclosure.

#### TRANSFER OF CREDIT

#### ILLUSTRATIONS OF MONTHLY BENEFITS TO BE GAINED BY FEDERAL EMPLOYEES FROM A TRANSFER-OF-CREDIT PROGRAM

The importance of the proposed transfer-of-credit plan for Federal employees is dramatically demonstrated by the following six examples taken at random to represent typical cases:

##### CASE A

Mr. A with wife and one child works 24 years under the civil service earning an average of \$5,000 per annum. He then separates from his Government job, taking a refund of his retirement payments; and he works 12 years under social security, earning an average of \$6,600. He then retires at age 65 and dies at age 68.

Under the present system, he and his family would receive only \$167 per month retirement pay, and upon his death, his widow and child would receive \$150.

Under the transfer-of-credit system, he and his family would receive \$284 per month retirement; after his death, his widow and child would receive \$213.

	Present	Transfer of credit	Difference per month
Retired with wife and child .....	\$167	\$284	\$117
Widow and child survivors .....	150	213	63.

##### CASE B

A divorced mother with two children started working at age 20 and works 4 years under civil service at \$5,000. She then separates from her Government job and after 6 years at home, she works 2 years under social security at \$4,800 when she becomes disabled at age 32 and dies at age 33.

Under the present system, she and her children would receive nothing for disability while she lived, though the two children would receive \$147 per month after her death.

Under the transfer of credit plan, she would receive \$254 disability benefit per month and her surviving two children would receive \$191 per month following her death.

	Present	Transfer of credit	Difference per month
Disabled mother and 2 children.....	\$0	\$254	\$254
Surviving 2 children.....	147	191	44

## CASE C

Mr. C, age 24, with wife and child graduates from college; he works 1 year under the social security system at \$7,000 per annum and then works 4 years under the civil service at \$8,000 per annum. He then ceases to work at age 29 because of disability. At age 32 he dies.

Under the present system, he and his family would receive nothing per month for disability and, after his death, his wife and child would receive nothing in survivorship benefits.

Under the transfer-of-credit plan, he and his family today would receive \$284 disability per month, and after his death his wife and child would receive \$213 monthly survivorship benefits.

	Present	Transfer of credit	Difference per month
Husband disabled, wife, and child.....	0	\$284	\$284
Survivorship benefits, wife and child.....	0	213	213

## CASE D

Mr. D, age 22, with wife and child works 2 years under civil service at \$6,600. He then separates from his Government job because of a severe disability; and he dies at age 25.

Under the present system neither he nor his family receive any benefits whatsoever, either while he is alive on disability or after his death.

Under the transfer-of-credits plan, also, he and his family would receive no disability payments; however, his family would receive \$213 per month survivorship benefits after his death.

	Present	Transfer of credit	Difference per month
Disabled husband, wife and child.....	0	0	0
Survivorship benefits, wife and child.....	0	\$213	\$213

## CASE E

Mr. E. with a wife and one child works 2 years under social security at \$4,000. He then works 10 years under civil service retirement at average wage-board earnings of \$5,000 the first 6 years and \$7,000 the last 4 years. He separates from his Government job and withdraws his payments into the retirement fund. He then works 1 year again under social security at \$8,000; but becomes disabled at age 35 and dies at age 45.

Under the present system, in the absence of the Daniels bill, he and his family receive nothing for disability and his family receives nothing after his death for survivorship.

TRANSFER OF RETIREMENT CREDITS

Under the transfer of credit plan, he and his family would receive \$284 per month while he was disabled and \$213 after his death would be paid his widow and child.

	Present	Transfer of credit	Difference per month
Husband disabled, wife and child.....	0	\$284	\$284
Survivorship benefits, wife and child.....	0	213	213

CASE F

Mr. F, with wife and no children works 16 years under civil service, averaging \$4,000 in wage-board employment during his last 2 years; he then works 4 years at \$5,000 per annum for a charitable organization exempted from social security payments; then he works under social security for 18 years at \$4,800 per annum. After 18 years, at age 60, he quits and he applies for retirement benefits at age 62.

Under the present system, he and his wife would be entitled to a retirement payment of only \$66 per month under social security. Under the transfer of credit plan, however, he and his wife would receive \$139 monthly retirement payments.

	Present	Transfer of credit	Difference per month
Man retired at 62 and wife.....	\$66	\$139	\$73

**STATEMENT OF JOHN F. GRINER, NATIONAL PRESIDENT, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES; ACCOMPANIED BY THOMAS G. WALTERS AND CARL K. SADLER**

Mr. GRINER. Thank you. I will paraphrase my statement and make it as short as I can. I think I have covered the subject matter pretty well in the statement and expressed our position, but first I would like to say that we wholeheartedly endorse H.R. 6784, and we want to thank you, Mr. Chairman for introducing this legislation.

There has been, for some time, a condition that existed with Federal employees which made it appear that they were being discriminated against.

In other words, the people who are under social security coverage, especially those with a short period of service, or with low wages. We see more benefits from social security than the same people who are working under the civil service, and in those cases, where the people under civil service have less than 5 years of service. they receive no benefits if they should die before they complete the 5 years of service. The only benefits that their family receives is a return of the money which they have been paying into the civil service retirement fund.

Under this bill, we would be able to transfer those credits for the person with less than 5 years of service to the social security system and have the social security system pay the Federal civil service employee, or his family, any benefits which might have been payable to him had that civil service service been performed under social security. This inequity and injustice, if I may say, has been apparent

for some time. The President, last year, took cognizance of this fact in his message to Congress.

We would also like to have the committee consider other legislation which has been introduced by our distinguished chairman of this subcommittee that would provide for an increase in the computation. There again we have an injustice, because under our present system, the first 5 years of service is computed on the basis of  $1\frac{1}{2}$  percent. The next 5 years,  $1\frac{3}{4}$  percent, and then the balance, 2 percent.

In other words, our present system is weighted toward that man who makes a high salary and who has long service; even though all of the employees pay the same tax.

We believe the 2 percent should be used as a computation factor. We also believe that we should drop this high 5-year average as we now have it and substitute therefor the high 3-year average, as called for in Mr. Daniel's bills, and for a number of years we have had a computation factor of 2 percent for these employees who are engaged in hazardous occupations, and for the legislative employees. We would like to see that raised to  $2\frac{1}{2}$  percent, and we hope that this subcommittee takes that into consideration as we go along.

I have in this statement a number of examples which will clearly indicate the injustices that are now being perpetrated upon the Federal employees, and that is as between the civil service system and the social security system, and I suggest that the subcommittee check these examples, and they can determine for themselves very readily where these injustices are.

I might say that we are going to appear before the Ways and Means Committee tomorrow afternoon at 3 o'clock for the purpose of supporting that part of the bill that is now before this subcommittee, which bears on this particular subject.

With that, Mr. Chairman, I would like to express the thanks of this federation for your time and the opportunity of appearing before you. Thank you very much.

Mr. HENDERSON. Thank you very much, Mr. Griner. I would like to pursue with you just a minute, page 2 of your prepared statement.

You say, under this bill, that a disabled Federal employee and his family, or a normally retired employee and his family could still receive significantly less benefits while he is living than if his Federal service had been computed under social security. Let me ask you about the normally retired Federal employee and his family.

How would he get less if this bill were enacted?

Mr. GRINER. Under this particular bill the man who has less than 5 years of Federal service would be in the same position as he would be under social security, because a man must have six quarters of service under social security. Unless he had some service already under social security, and they could add that to the Federal service, that would give him the six quarters which would make him eligible for an annuity based on age or disability under the social security system.

Mr. HENDERSON. Isn't that a defect of the social security structure, rather than this bill?

Mr. GRINER. I agree with you, but let's take the man with 6 years of service and he becomes disabled while working for the Federal



Government. Then he could qualify for a disability annuity, but the amount payable to him and his family, if he had a wife and child, and a minor child, would, in all probability, be far less than what he could qualify for under social security. This bill would correct that condition, I believe.

Mr. HENDERSON. Would?

Mr. GRINER. Partially, yes. Maybe I misstated—

Mr. HENDERSON. That was my understanding, and I wanted to be sure that we were understanding one another as to what the bill did provide.

I am not quite sure of your position in regard to that, and I clearly see the point that you have made with regards to the 5-year requirement, both in the retirement system and under the social security system.

Mr. Hanley, do you have any questions?

Mr. HANLEY. Mr. Chairman, I have no questions. I simply again want to express my appreciation to Mr. Griner for his views on this subject. Thank you.

Mr. GRINER. Thank you, sir.

Mr. HENDERSON. Mr. Thompson, do you have any questions?

Mr. THOMPSON. No, sir.

Mr. HENDERSON. Thank you very much, Mr. Griner.

Our next witness is Mr. Jerome Keating, president of the National Association of Letter Carriers, accompanied by Mr. James Rademacher.

It is a pleasure to welcome both of you before the subcommittee this morning.

**STATEMENT OF JEROME KEATING, PRESIDENT, NATIONAL ASSOCIATION OF LETTER CARRIERS; ACCOMPANIED BY JAMES RADEMACHER, VICE PRESIDENT, AND J. DON KERLIN, LEGISLATIVE ADVISER**

Mr. KEATING. Mr. Chairman and members of the subcommittee, we are very happy to have this opportunity to testify this morning on this legislation. We represent the National Association of Letter Carriers, an organization of 193,000 members located in every State of the Union, the District of Columbia, Puerto Rico, and the Virgin Islands. I am accompanied today by our vice president, James H. Rademacher, and our legislative adviser, J. Don Kerlin.

I must confess that we approached endorsement of this bill with some misgivings, but on considering it thoroughly, we feel that the benefits in the bill are greater than the disadvantages.

Since social security was established in 1936, those connected with it have sought to bring civil service retirement under its operation. This is the first measure that will bring a bit of coordination between the two programs. We have endorsed this program provided for in the Daniel's bill in the past. I do not believe that this step will lead to further coordination.

The civil service retirement plan was the first plan entered into by the Federal Government. The law was passed in 1920. It was not

until 1936 that social security became law, and the two are funded on entirely different bases.

You seldom hear any discussion about the deficits of retirement plans operated by the Government except the civil service retirement plan. In the last report of the actuaries, they report an unfunded liability of \$44 billion. We do have \$17 billion in the civil service retirement fund reserve. When the Kaplan committee made a thorough study of all the Government plans and some private plans back in 1954, the Kaplan committee estimated that the unfunded liability of social security was \$300 billion. We are told, however, that social security is on a pay-as-you-go basis, and we are on what may best be described as an adequately funded basis. In other words, we are supposed to collect enough money each year to pay the normal costs of the fund plus interest on the unfunded liability. Up until 1958, the contributions of the employees alone more than paid for the operation of the fund but, since that time, it is necessary to take part of the Government contribution or part of the interest to pay the expenses of the fund. What the actuaries say is essentially true, but if the civil service retirement system were considered on a pay-as-you-go basis, it would be the best operated and most adequately funded program in the Government.

The bill we have before us essentially does three things—it provides an annuity for those with less than 5 years of service, it provides survivor benefits for the widows and children of those with less than 5 years of service, and provides a minimum annuity for widows and surviving children. If an employee has less than 5 years of service in the Government, however, and no social security credit, he would not be protected in the case of disability. Social security, too, requires 5 years of covered service to qualify a man for disability benefits; however, if the total service in both social security and civil service retirement equals 5 years, then the man would qualify for disability benefits. We are concerned about this item because of the overuse of temporary substitutes in the postal service. We had a case recently where a man went to work in the postal service as a temporary employee. He was covered under social security while on temporary status, and he worked for 4 years in that position, then became a career employee and was covered under civil service retirement. He worked for 3 years more and then became disabled. He was not eligible for benefits under either program. Under the provisions of the bill now before you, he would be eligible for social security benefits.

The provisions for widows' annuities need improvement. I might point out that all of the benefits contained in this bill are prospective—none of them are retroactive, and somewhere, sometime, we are going to have to take a good look at a number of widows of former Federal employees who receive no annuity and those who receive totally inadequate annuities amounting to somewhere around \$30, \$40, \$50, and \$60 a month.

The President in his message to Congress pointed out that a substantial number of widows receive substandard income. Certainly these people who have not qualified, either because their husband did not elect the reduction in his annuity, or those who receive extremely small annuities, should be given consideration in our campaign to eliminate poverty.

There are two things that I want to point out in this bill. Yesterday, when testifying before this subcommittee, Mr. Macy's statement contained the following:

This cost would be met in part by withholding a "tax equivalent" from the retirement contributions refunded to separated employees or their survivors. The Commission would refund retirement contributions only to the extent that such contributions exceed the OASDI tax the employees would have paid for Federal service after June 30, 1966, if their Federal service after that date had been covered by social security. This tax equivalent would be withheld irrespective of whether social security benefits are or will be payable, and irrespective of whether OASDI taxes are being paid on earnings from other employment.

To state it another way, the funds transferred from the retirement system to the social security system will be only the proportionate amount of the cost of social security benefits actually paid that is attributable to the Federal service under the retirement system. Neither service credits nor funds will be transferred until the employee dies, becomes disabled, or reaches retirement age—and then only for those who apply for OASDI benefits.

I would like to convert these two paragraphs to a rather more simple statement, which merely is that there will be practically no further refunds under the civil service retirement plan, except refunds earned prior to June 30, 1966, plus the difference between the payments of social security and civil service retirement. In the future, refunds will be pretty well eliminated from the civil service retirement program. In the future there will be limited further refunds.

I would also like to point out a brief sentence on page 6 of Mr. Macy's prepared statement, which says:

The proposal would not apply to the spouse of a deceased annuitant who did not elect a survivor annuity based on the full amount of his own annuity.

Under the present law, there is a 2½-percent reduction on the first \$3,600 of annuity, and a 10-percent reduction on any amount of annuity above that. If an employee were entitled to an annuity of \$3,800, he would be notified that he could refuse the reductions in whole or in part. If he refuses the reduction completely, his survivors would not be entitled to any benefits whatsoever and, of course, under this provision they would not be entitled to any benefits. If he elected to pay 2½ percent on the first \$3,600 and not pay the 10 percent on the balance of \$200, under this bill the survivors would not be entitled to the guaranteed benefits provision.

I do not know how much money this would result in saving, but I would like to suggest to the subcommittee that it take a look at this particular provision with the thought of changing the bill.

We endorse the bill and believe it would take care of a category of annuitants who do require improved benefits. We hope that it will become law in this session of Congress.

Mr. HENDERSON. Thank you very much, Mr. Keating.

One question with regard to your statement on page 4. You say, after you make the two statements and then reduce them to the simple statement, there will be no further refunds?

Mr. KEATING. Well, practically no further refunds. I qualify that to some extent. There would be refunds at the present time. The social security contribution is 4.4 percent. Ours is 6.5 percent. There would be a refund in the difference between the two, which is 2.1, but the amount of the social security would be taken out of the refund.

Mr. HENDERSON. I became concerned overnight, and asked the staff when I came in this morning just how we were working in this area, because my concern was based upon the fact that about 80 percent of the short-term Federal employees that leave the Federal service withdraw all of their retirement. I understand the testimony of Mr. Macy yesterday, if this bill is enacted, they will be refunded that portion of their retirement that exceeds what would have been the OASDI.

Mr. KEATING. That is right. They would be refunded.

Mr. HENDERSON. This is what you are talking about here, I think.

Mr. KEATING. Yes, the tax equivalent would be withheld, irrespective of whether social security benefits are or will be payable, so even where they don't receive social security benefits, the tax equivalent is withheld. That would be the social security share.

Mr. HENDERSON. It was my understanding that this actual transfer computation would come when the former employee applied for social security benefits, and that being the case, it would seem to me that we are going on a premise that he has qualified for social security benefits, Mr. Keating.

Mr. KEATING. Well, the service credits—the transfer—will not occur until the employee dies, becomes disabled, or reaches retirement age.

Mr. HENDERSON. Let's take the case of an employee that would come to work for the Government as his first employment. He has never worked under social security, and works 4 years for the Government.

Mr. KEATING. Yes.

Mr. HENDERSON. He resigns and is immediately killed before he obtains another job. He has no social security credit. Would not his widow, in that instance, only have the benefits of what he had paid into the retirement fund?

Mr. KEATING. I am not sure in a situation such as you describe.

Mr. HENDERSON. And to get them all back, including the tax that he worked beyond the 5-year period would have been transferred to social security.

Mr. KEATING. She will get the difference between what the civil service retirement deduction was, and what the social security deduction is, even though after 4 years he hadn't qualified for any benefit, but there would be 4.4 percent, at the present time, taken out of his annuity, or taken out of his contribution.

Mr. HENDERSON. I understand that she would apply to social security, if he were not eligible for civil service benefits.

Mr. KEATING. Well, I think the theory is that they would still take the social security out of his contributions. I think the theory is that if he died, his wife would be eligible under social security, so he has the same social security protection that an employee has under social security. I would interpret it that as long as he is considered under the social security benefits, although not under social security, he is required to pay the same percentage to the social security people that all employees pay. He doesn't pay it to social security, he pays it to civil service retirement, and they pay for the amount of money that social security puts out, but he is required to make the same payment as if he were strictly under social security. There is no refund under social security, so he only gets refunded the difference. That is all he can ever get.

Mr. HENDERSON. If that is right, then he would be in the same position at that time as if he had been working in private employment under the social security for those 4 years.

Mr. KEATING. Yes.

Mr. HENDERSON. I will ask the staff to check this so that—

Mr. KEATING. I checked it with Mr. Ruddock yesterday, and I am sure that it is right.

Mr. HENDERSON. Fine.

Mr. Hanley.

Mr. HANLEY. Mr. Chairman, Mr. Keating makes the fine point with respect to the widows of former Federal employees that receive no annuity, and certainly I am aware of a number in this category who are living with an income somewhat less than the accepted poverty level, so we do have a responsibility in this area that I hope Congress will recognize.

Mr. HENDERSON. Thank you, Mr. Hanley.

Mr. Keating, I might point out, however, as I understand the general law, that if you are working in, say, two or three positions, and the withholding tax or OASDI is taken out, they would have a right to claim that on their tax form, so if we are talking about the Federal employee that works 4 years, working on extra work, where he is doubly taxed, he would be able to get that credit back on his income tax return.

Mr. KEATING. That is right.

Mr. HENDERSON. Thank you very much.

Mr. Thompson, do you have any questions?

Mr. THOMPSON. Yes, I do have one question. Mr. Keating, you mentioned that you approached your endorsement with reservations, and I hoped you would amplify a little more specifically what your reservations are about this. Do you have some misgivings about your endorsement?

Mr. KEATING. This has been a long-term issue. I think as far back as 1936 or 1937 the Administrator of the Social Security Administration at that time suggested coordination, and the Federal employees have always resisted coordination, because we think basically there is a substantial difference. Social security at least started out to be a minimum benefit plan. Ours is a staff retirement plan, and the problem that is bringing us here today is that in a minimum plan, certain people with less service and survivors do better on the minimal plan than they do on a staff retirement plan. Now, our plan is operated very successfully, and as I remarked, financially we are the only plan in the Government that has any reserve of any consequence. We have about \$17 billion, and it is operated with the employees paying—they paid all expenditures up until 1958—and it is only since 1958 that either the interest or the contributions of the Government have been spent.

On an actuarial basis, figuring a plan where you pay the cost of operations, plus the interest on unfunded reserve, we do have an unfunded reserve of \$44 billion, a good deal of that is interest, and a good deal of it has been caused by the fact that credit is given for complete service, if there is an improvement in annuities, then there is an additional deficit clause in this area.

So we do have that unfunded liability. That is not uncommon even in private plans. Most private plans are operating with a substantial

unfunded liability. We do know that the trend of the plan is such that within a few years, we will be putting out more money than we are taking in, and we are very receptive to programs where the financing of the fund would be improved, but we still hold the position that we would like to see our plan operated separately from social security, and not by social security.

Mr. THOMPSON. Basically, of course, what this plan does, is make available to Federal employees who withdraw with less than 5 years of service, certain benefits that would otherwise be available under social security.

Mr. KEATING. That is right.

Mr. THOMPSON. Would you prefer to see—rather than having a transfer of funds from the civil service retirement fund to the social security trust fund—the civil service benefits amended so as to provide for these people under the civil service law the benefits which would otherwise be available under social security? See, what we are doing, we are actually transferring funds from one fund to another fund and enabling this person to avail himself of certain social security benefits. Would you prefer to see this remain within the civil service, and the act amended so as to provide these benefits?

Mr. KEATING. Well, we have proposed that in the past, but, of course, it has never come to any realization, and this approach that you have before you has been studied now for several years, and we feel that the necessity is so great, actually, the small amounts received by so many widows poses a serious problem, and that will occur in the future as it has in the past.

Now, the past we still have with us. This will take care of the future, but we still have the widows with inadequate income in past years, and we will still have them, even with the passage of this bill. But, of course, there is always the question of getting money to pay for it, and we believe that the system that we have worked out is workable. I don't think there is any sound reason why it should be done this way, any more than have the civil service law amended, except possibly one, and that is a greater spread of the risk, and sometimes insurance, and you have been in the insurance business, the spread of the risk reduces the actual cost, with a large number of people, you get a cheaper operation.

Mr. THOMPSON. So you really have no serious misgivings about, in effect, utilizing the social security system?

Mr. KEATING. Well, we did have some, frankly. We considered that point at some length, but we feel that there is no danger involved in this approach.

Mr. THOMPSON. Thank you very much.

Mr. HENDERSON. Thank you, Mr. Keating.

Our next witness is Mr. C. L. Dorson, president of the Retirement Federation of Civil Service Employees. Mr. Dorson, we are very happy to have you here this morning.

Mr. DORSON. Thank you, Mr. Chairman.

**STATEMENT OF C. L. DORSON, PRESIDENT, RETIREMENT FEDERATION OF CIVIL SERVICE EMPLOYEES**

Mr. DORSON. Mr. Chairman and members of the subcommittee, my name is C. L. Dorson. I am president of the Retirement Federation

of Civil Service Employees, with offices at 900 F Street NW., in this city.

H.R. 6784 seems to provide the necessary mechanics for a transfer of credits for Federal employment to the social security system for the purpose of assuring the payment of a social security benefit to the employee and/or his dependents in cases where a civil service retirement benefit is not payable. We understand that the mechanics for actual payment of these benefits are contained in amendments to the Social Security Act proposed in H.R. 5710 which is now before the Ways and Means Committee.

We endorse the proposed transfer of credits in principle, since this appears to close, or nearly close, a rather serious benefit gap of long standing. As of now, and since 1936, the Federal employee with short service, and even with long service under certain circumstances, has been at a distinct disadvantage when compared to employees in private industry, particularly with regard to protection of his family from privation. It appears, however, that at least some of this disadvantage may continue if H.R. 6784 is enacted as proposed.

So far as survivors of an employee who dies in Federal service, or soon after separation, are concerned, H.R. 6784 seems to assure a benefit that would, in most cases, protect against privation. We are concerned, however, that the employee, and his family as well, who is separated after many years of Federal service and is entitled to deferred annuity, may still find himself without protection if he should become disabled before he acquires 5 years of social security coverage. At the very least, he would be forced to surrender civil service retirement benefits of considerable proportion and we are not at all sure that this method would be available in every case.

We do not suggest that these former employees with long service are entitled to have their cake and eat it, too.

We do, however, ask that you consider a provision that would assure them disability protection without the complete loss of a benefit earned through long service. It seems reasonable to ask that a former employee entitled to deferred annuity on the basis of more than 10 years' service not be required to transfer more than the minimum service necessary to provide title to disability benefits under social security.

The fact that existence at even the poverty level requires certain minimum income has been well documented and any effort to provide this minimum most certainly earns our commendation. Minimum annuity benefits are not new under the civil service retirement system, but they are presently restricted to employees who retire for disability and even then are quite often hard to recognize as such. If, for example, two employees retire for disability with the same service and average salary, one, because he is 10 years younger, would get more than twice the annuity of the other.

The formula for providing minimum annuities proposed by H.R. 6784 is more than a little complicated. If we interpret correctly, and we are not at all sure that we do, many inequities seem built in and the possibilities for discovering more in their actual operation appear fair to good.

The language of section 3, on page 7 of the bill, appears to mean that if the employee's earned annuity is greater than the minimum

provided by the formula, the earned annuity will be paid. This, however, is not clear, and we, therefore, suggest that the employee's right to the earned annuity, when larger than the minimum, be clearly established as in the case of a survivor on page 10 of the bill.

The payment of minimum annuities, as proposed by section 3 of H.R. 6784, is restricted to employees who retire on immediate or disability annuity under sections 8336 and 8337 of title 5, United States Code. We submit that employees who retire under section 8335, for mandatory separation, and deferred annuitants retired under section 8338, could be as needy and deserving as any others and should be covered.

Paragraph (a), at the top of page 8 of the bill, restricts the payment of the minimum annuity until they are age 65 in the case of employees retired on immediate annuity, under section 8336, and this would apply to both men and women. Since social security benefits, on which the minimum annuity is predicated, are payable at the full rate to women, and at a reduced rate to men, at age 62, it seems reasonable to us to suggest that the minimum civil service retirement benefits should be payable at age 62 to all immediate and deferred annuitants. However, we would find nothing wrong with basing the minimum benefit on the full social security benefit.

Paragraph (b) on page 9 of H.R. 6784 restricts payment of the minimum annuity to a widow, dependent widower, or surviving spouse who is at least age 62 unless a civil service annuity is payable to at least one child of the deceased employee who is under age 18 or is incapable of self support. This provision, it seems to us, is unnecessarily restrictive and overlooks two facts of importance.

In the first of these, the annuity of a widow, dependent widower, or surviving spouse, computed without regard to the minimum annuity provision, is payable at any age. If there is a need to provide a minimum benefit, and we think there is, that need can be as great, or greater, before age 62 and whether or not there is a child under 18 who, incidentally, is not required to be the responsibility of the employee's spouse.

In the second, the annuity of a child under section 8341(e) of title 5, United States Code, is payable until the end of the school year following his 22d birthday if he is a student.

Therefore, since it seems inconsistent with the purpose of H.R. 6784, we suggest that paragraph (b), on lines 4 through 11 of page 9, be eliminated.

With no intention of being other than constructively critical, we find the system for providing minimum benefits as proposed in H.R. 6784 to be difficult to comprehend and certainly not given to easy understanding by most Federal employees. We are concerned, too, that the exchange of information between the Social Security Administration and the Civil Service Commission, required for the adjudication of minimum annuities, will almost certainly result in long delays in the payment of benefits.

Perhaps there is no other way to do the job, but would it not be more simple, and perhaps less costly overall, to provide all Federal employees and their dependents a guaranteed level of benefits under social security and let the civil service retirement system continue to pay only earned benefits as at present?



The benefits proposed in H.R. 6784 are confined almost entirely to employees with minimal service and their families. Mr. Macy has testified that this is the intent and has estimated that the level annual cost will be \$280 million.

We are of the opinion that the long-service employee, who stands to gain little or nothing, will pick up the principal tab, one way or another, and it seems reasonable that he should have a share of the "goodies." Therefore, we urge that you balance the benefit of the long-service career employee with his cost by amending H.R. 6784 so as to provide a computation rate at  $2\frac{1}{2}$  percent of the average salary for all service creditable under subchapter III, chapter 83, of title 5, United States Code.

Mr. Chairman, we are grateful to the subcommittee for its interest in the subject matter and for the opportunity you have afforded us to express our views.

Mr. HENDERSON. Thank you very much, Mr. Dorson. I want to make a comment with regard to your concern about the long delays between the computation requested by the social security system and the civil service system. This was a concern that came to my attention yesterday in the hearings which I did not comment on. I think there is a problem, and it could be a real one in the administration. My thought yesterday was that I would defer that until the legislation was enacted. I have some ideas that this could be speeded up possibly by some of our computer operations, and if the legislation is enacted, I would like to assure you and others that this subcommittee will be interested in its administration, and will do whatever we can to insure that these long delays are not encountered merely because we don't have the system to do this work promptly.

Mr. DORSON. Thank you Mr. Chairman. I am concerned principally with the interchange of information as between the two agencies having jurisdiction here, and if the past is any indicator of what could happen, then we think that our concern here is a legitimate one.

Mr. HENDERSON. Well, let me say that my interest in the social security program alone, for example, has convinced me long ago that the delays are too long in that system, but I am hopeful that we will be able to put the basic information—I realize there are always exceptions, but basically, if we could fix our records in the Social Security Administration—as well as the Civil Service Commission—on computerized tapes, that we ought to be able to take the employee and the social security number and pull this information out by computer very fast. I don't know much about this, but I am hopeful that we can do a better job than has been done even in the past.

Mr. DORSON. Thank you, sir. I hope so. It has been my experience, however, that computers don't always speed up, particularly with regard to getting information from the employing agency to the Commission where the agencies or the various branches of the agency have to furnish the employee's service record and salary and so on to the Commission. In instances where they are going to computers, we have found the delays in getting the records to the Commission have been two or three times longer than ever before. I hope that, after they understand these animals, they may be able to do better.

Mr. HENDERSON. Maybe this proves that automation hasn't taken all the paperwork and redtape out of the Government.

Mr. DORSON. Apparently it hasn't.

Mr. HENDERSON. Mr. Thompson.

Mr. THOMPSON. No questions.

Mr. HENDERSON. Mr. Daniels, do you have any questions of the witness?

Mr. DANIELS. No, sir.

Mr. HENDERSON. Thank you very much, Mr. Dorson.

Mr. HENDERSON. Our next witness is Mr. Nathan T. Wolkomir, president of the National Federation of Federal Employees.

We are glad to have you here this morning, Mr. Wolkomir.

Mr. DANIELS (presiding). Mr. Wolkomir, you may proceed. Do you have a prepared statement, sir?

Mr. WOLKOMIR. Yes, sir; and I believe we will be in the guidelines set forth by Congressman Henderson, since my statement is short.

#### STATEMENT OF NATHAN T. WOLKOMIR, PRESIDENT, NATIONAL FEDERATION OF FEDERAL EMPLOYEES

Mr. WOLKOMIR. Mr. Chairman and members of the subcommittee, my name is Nathan T. Wolkomir. I am president of the National Federation of Federal Employees. Our organization has a long record of support of constructive retirement legislation for Federal employees.

The subcommittee is addressing itself at this time to H.R. 6784, a bill to amend subchapter III of chapter 83 of title 5, United States Code. This legislation, which is intricate, has two major objectives.

First, it provides social security coverage for the Federal employee, who is not entitled to civil service retirement coverage, by transferring his credit for Federal service to the social security system. The financial adjustment for this transfer of credit for service of a Federal employee is provided in H.R. 5710, a bill to effect changes in the social security laws, which is being considered by the House Committee on Ways and Means.

Second, the bill, H.R. 6784, also establishes methods of computation under the civil service retirement system which will assure that such retirement benefits, together with social security benefits based on other employment, will not be less than that which would be payable if the Federal service had been covered by social security.

Federal employees with less than 5 years' creditable service do not have civil service retirement benefits as do Federal employees with more than 5 years' creditable service. In connection with the first feature, the bill makes no distinction between Federal employees with less than 5 years' service and those with more than 5 years' service. We feel that this distinction should be made. We are in favor of providing coverage as proposed in H.R. 6784 to Federal employees with less than 5 years' creditable service.

However, with respect to Federal employees with more than 5 years' creditable service, we feel that these employees are in a different category since they are without entitlement to civil service retirement coverage because of forfeiture of eligibility through withdrawal of retirement contributions. They have exercised a voluntary option by withdrawing their retirement contributions rather than leaving their contributions untouched so that they may receive future civil service retirement benefits. Under these circumstances, we do not favor including them under the transfer of credit proviso of the proposed leg-

islation as this might be considered an encroachment on the civil service retirement system.

The second feature of the bill, which establishes methods of computation under the civil service retirement system which will assure that such retirement benefits, together with any social security benefits based on other employment, will not be less than that which would be payable if the Federal service had been covered by social security, is a sound and desirable objective. These provisions of H.R. 6784 would aid those who otherwise would exist on meager annuities in this day of rising living costs. We are in favor of this feature of the bill.

A major issue of concern is the optional versus the mandatory requirement of withholding social security payments on the part of the employee. An initial condition of employment for all Government employees was the illusionary concept of retirement under the civil service retirement system. It is now proposed to have mandatory coverage under social security. In spite of this contradiction of open choice, optional determination, it is a factor that bears consideration—optional versus mandatory requirements.

Another factor that should be highlighted is the difference between the present 6½ percent withholding on civil service retirement system versus 4.4 percent on social security. Is the difference to be returned to the employee or credited to more quarterly coverage?

We understand it is to be returned, rather than credited. These guidelines, however, should be clearly spelled out in the legislation itself, and the bill does not cover same. The language of both H.R. 6784 and H.R. 5710, are so intricate and involved that it seems like much is left to administrative discretion to determine operational procedures.

The language should perhaps be made understandable and communicative.

I say this, bearing in mind the statement that was made by our colleague, Mr. Keating, previously, in terms of what the policy may be in regard to the marriage—possible marriage of social security and the retirement system.

I would like to state that NFFE has repeatedly rejected all proposals for any changes if it means linking the civil service retirement system with the social security system. We have gone on record in support of optional social security coverage, in addition to Federal retirement of Federal employees, but with the understanding that there will be no mingling of the two systems.

As an aside, may I state that, should optional social security be provided, the bills would not be necessary. We would like to see legislation enacted to provide optional social security coverage generally for Federal employees. Since the proposal for the social security changes forms the basis of this legislation, I would be remiss if I did not call for definite assurance that H.R. 6784 is not a step in the direction of administratively merging the civil service retirement system with the social security system nor a substitute for optional social security coverage for Federal employees.

Mr. DANIELS. Thank you, Mr. Wolkomir, for a very fine statement.

You have indicated by your testimony that you were present at the hearing yesterday, and listened to the testimony of Chairman Macy.

Mr. WOLKOMIR. We read his statement. I am sorry, sir; we were not present.

Mr. DANIELS. I am quite sure if you were present, you would not have obtained the idea that it is proposed to merge the retirement fund with the social security fund. I think it is farthest from his mind, and farthest from my mind. There is no such proposal before this subcommittee.

Mr. WOLKOMIR. We appreciate this, Mr. Chairman——

Mr. DANIELS. And the fact is made sure that this will not take place, by spelling it out in the report, if this legislation is reported favorably to the House.

Mr. WOLKOMIR. We feel confident that that will not happen. We feel, however, if we are going to transfer the retirement funds to the social security funds, this is a move in the direction of the marriage, but with your assurance, we feel quite certain that this would not happen. The administration of the benefits under these bills would be under social security, however, and not under the retirement program.

Mr. DANIELS. Mr. Macy furnished the members of the committee yesterday with a supplemental chart, which summarized his testimony, and I think if you would lay your hands on such a chart—in fact, I think this committee can make it available to you—you will see that there are two separate and distinct funds, the social security fund and the retirement fund, and the payments would be transferred from one to the other.

Mr. WOLKOMIR. It would still mean a movement of retirement funds, for those employees with more than 5 years of service who have withdrawn their money, into the social security fund.

Mr. DANIELS. Well, indirectly, that would be so.

Mr. WOLKOMIR. Has the subcommittee considered the possibility of placing the same benefits that Mr. Macy was speaking about under the social security hierarchy, and placing the same benefits under the Government retirement system, and let those people who originally contributed to the retirement system, benefit by the same social security benefits, but leave it in the retirement system?

Mr. DANIELS. The philosophy of the two acts are entirely different. Social security is insurance; retirement is entirely different.

Mr. WOLKOMIR. Well, this would be a question of increasing the retirement benefits, under this proposal. It is merely a consideration.

Mr. DANIELS. Now, you mentioned on page 2 of your statement that with respect to Federal employees, who have acquired more than 5 years of service in the Federal employees' retirement fund, that if they withdraw their money, they would automatically be transferred to social security rolls, with the retirement system withholding a sufficient amount of money to qualify them for membership in the social security. Now, you state at the end of that first paragraph that you deem this an encroachment on the civil service retirement system. In what manner would the encroachment——

Mr. WOLKOMIR. In terms of the mandatory versus the optional. On the part of the employee. We are now saying to the employee, "You will not draw your money, because we are going to take out of it the equivalent—tax equivalent—under social security, and move it under social security, whether you want to or not." It is the mandatory versus the optional.

Mr. DANIELS. That is one of the intents of this law, because it was testified here yesterday that 80 percent of those who separate, subse-

quently elect to withdraw their funds from the retirement system. In the event of emergency, something happening—medically to them, should they die, then they leave their families without any protection whatsoever. Do you approve of that?

Mr. WOLKOMIR. It is a question of principle that is involved here, sir, in this respect. Are you saying you will insure yourself whether you want to or not? Isn't this the actual effect of this determination, in terms of "you will buy the insurance, whether you want it or not"?

Mr. DANIELS. To my point of view, this is social legislation, which I think the times require. I go back to 1935, and remember people in this country who were vitally opposed to the social security system, but since that time, they have come around to accept it.

Mr. WOLKOMIR. Well, we certainly are not against anything that is socially progressive.

Mr. DANIELS. I may ask you this question. Does an employee in the private sector of our economy, working for a private employer, have any choice as to his desire to be enrolled under social security?

Mr. WOLKOMIR. He certainly does not.

Mr. DANIELS. It is compulsory, isn't it?

Mr. WOLKOMIR. It is compulsory, sir.

Mr. DANIELS. We are adopting the same principle here. When he resigns, he withdraws his money from the retirement plan.

Mr. WOLKOMIR. Wasn't it the determination of the employee, when he came into the Government, the determination of the employee that he would be eligible for a Government retirement program, not an insurance in terms of social security. He was hired with this particular condition of employment and understanding, and now we are telling him, "This original agreement that we have with you when we hired you as a Government employee is no longer applicable, you are now falling under the social security regulations and requirements," and we are saying, fine, let's do it this way. However, let's make social security optional, and let the Government employee pay for it the same way as the one in the private sector has to, but let him have the free choice.

Mr. DANIELS. We will leave that point. We differ on it.

You mentioned further in the last paragraph of your statement, the possibility of commingling the funds of the two systems. As I understand the testimony yesterday, and also the legislation under consideration, there is no intention of commingling funds. They are two separate funds, and both will be kept separate.

Mr. WOLKOMIR. Honest intentions, and acts and deeds, are two separate things. We see here a tendency and trend. We are now removing money from the retirement fund, and moving it into the social security—

Mr. DANIELS. That is somewhat so. A transfer will not take place until an application is made for benefits under the social security system, however.

Mr. WOLKOMIR. I may have misunderstood Mr. Macy's statement in the reading, but this is the way that I understood it, that it would be transferred—social security costs would be removed annually from the retirement fund.

Mr. DANIELS. Well, it is a transfer of credits, but there is no transfer of funds until there is an application made for social security

benefits. That was brought out in the cross-examination of Mr. Macy, after he had given his testimony.

Mr. WOLKOMIR. This was in his oral testimony?

Mr. DANIELS. Yes.

Mr. WOLKOMIR. With your kind permission, sir, I would like to spend more time in studying both his testimony and recommendations, and may I supplement as a matter of record our particular statement?

Mr. DANIELS. Well, the testimony will be printed, and a copy of it will be made available to you.

However, if you desire to amend this statement, I would suggest you see Mr. Devlin of this staff.

Mr. WOLKOMIR. I would appreciate it, because there is an issue of principle involved in here, which I think is going to take up all afternoon, were we to discuss it.

Mr. DANIELS. Any questions, Mr. Thompson?

Mr. THOMPSON. No questions.

Mr. DANIELS. Thank you, Mr. Wolkomir.

(The supplemental statement of Mr. Wolkomir was received and is herewith made a part of the record.)

SUPPLEMENTAL STATEMENT OF NATHAN T. WOLKOMIR, PRESIDENT, NATIONAL FEDERATION OF FEDERAL EMPLOYEES

Mr. Chairman and members of the subcommittee, my name is Nathan T. Wolkomir. I am president of the National Federation of Federal Employees. I appreciate the opportunity afforded me to supplement my statement of March 22, 1967, on H.R. 6784.

NFFE favors the objectives of this bill. We favor the first feature of H.R. 6784 as it relates to the Federal employees with less than 5 years creditable service and the second feature of the bill establishing a guaranteed benefit level. However, in connection with that part of H.R. 6784 which relates to employees with more than 5 years' creditable service, they are entitled to civil service retirement benefits. We feel that since these employees established entitlement to retirement benefits under the civil service retirement system (but lose such entitlement), the retirement benefits should be payable under the civil service retirement system rather than under the social security system. It is for this reason that my statement on March 22, 1967, did not favor including Federal employees with more than 5 years' creditable service under the transfer of credit proviso of the proposed legislation. We do favor them having entitlement to the benefits established but not under the social security system. As to the amount of such benefits it should not be less than that which would be payable if the Federal service had been covered by social security.

NFFE's endeavors for the past 50 years on behalf of Government employees is certainly indicative of its affirmative stand on the need for social legislation like social security. The issue that is involved, however, is that H.R. 6874 makes it mandatory for a select group of employees (those who established entitlement to retirement benefits under the civil service retirement system) to be arbitrarily placed under social security. Would it not follow to state that the same could be done to other Government employees and make it mandatory for them to fall under social security? The question of optional versus mandatory requirements was the issue raised in the basic statement. We are concerned that this might be a foot in the door that could be used to eventually merge both systems.

Particular attention is invited to Mr. Macy's statement given on March 21, 1967. Reference is made to page 5 of his testimony.

"The retirement trust fund would reimburse the social security trust funds—annually—in an amount sufficient to meet that proportion of the cost of all social security benefits paid during that year which was attributable to Federal employment under the retirement system.

"This cost would be met in part by withholding a 'tax equivalent' from the retirement contributions refunded to separated employees or their survivors. The

Commission would refund retirement contributions only to the extent that such contributions exceed the OASDI tax the employees would have paid for Federal service after June 30, 1966, if their Federal service after that date had been covered by social security. This tax equivalent would be withheld irrespective of whether social security benefits are or will be payable, and irrespective of whether OASDI taxes are being paid on earnings from other employment.

"To state it another way: The funds transferred from the retirement system to the social security system will be only the proportionate amount of the cost of social security benefits actually paid that is attributable to the Federal service under the retirement system. Neither service credits nor funds will be transferred until the employee dies, becomes disabled, or reaches retirement age—and then only for those who apply for OASDI benefits."

It is to be noted that, in spite of the committee's belief, the total cost of the social security benefits are to be removed annually from the Civil Service Commission retirement fund. There could be a marked difference between the amounts of tax equivalents transferred versus the amounts of benefits that could be paid out annually. Mr. Macy's testimony reflects that this is definitely a transfer of funds from one system to another and could lead to eventual depletion of the meager reserve presently in the Civil Service Commission retirement fund. NFFE membership is suspect of any transfer of retirement funds and consequently questions interpretation of the wordage as stated by Mr. Macy.

An assurance is in order within the legislation itself that a marriage of the civil service and social security retirement systems would not take place.

We appreciate this opportunity and are thankful to the subcommittee to allow a presentation of the NFFE stand on H.R. 6784.

Mr. DANIELS. Our next witness is Mr. Dan Jaspan, legislative representative, National Association of Postal Supervisors.

Mr. JASPAN. Mr. Chairman, I have a statement I would like to read.

Mr. DANIELS. Mr. Jaspan, you are permitted to proceed in any way you wish.

# **STATEMENT OF DANIEL JASPAN, LEGISLATIVE REPRESENTATIVE, NATIONAL ASSOCIATION OF POSTAL SUPERVISORS**

Mr. JASPAN. My name is Daniel Jaspan. I am the legislative representative of the National Association of Postal Supervisors, composed of more than 31,000 postal supervisors, with members in all 50 States and in Guam, Puerto Rico, and the Virgin Islands. Our members are employed in post offices, branches, stations, motor vehicle facilities, maintenance units, airmail facilities, and mobile units.

We appreciate the opportunity to express our views on H.R. 6784, introduced by the chairman of this subcommittee. From a humanitarian standpoint, this bill appears to remedy some defects in the present civil service retirement system. However, we are concerned about the nature of the remedy.

At practically all of our national conventions, and most of our State conventions, resolutions are regularly passed to avoid any tie-up or coordination with the social security system. There is always the fear on the part of our members that, if social security once gets its foot in the door, this will lead to the absorption of our own retirement system, which, in spite of some shortcomings is much more palatable to us than social security. And, with a possible tie-in of more than 20 years, this proposal opens the door even wider.

We realize that there are some instances in which employees are adversely affected by not having sufficient coverage under the civil service retirement laws. This is especially true during the first 5 years of civilian service. We also realize that, even after 5 years, the sur-

vivor benefits are less in many instances under our system than under social security.

Our primary interest is in the career employee. We are anxious to attract as many people as possible who intend to make a career of the postal service. The fact that so many postal employees remain on the active rolls for 35, 40, and even 50 years is proof that a large group of people enter the service with the idea of making it a lifetime career.

We would like to see this subcommittee study the alternative of liberalizing our own Civil Service Retirement Act rather than coordinating it with social security. We believe that the necessary changes can be made within our own system so that any tie-in with social security can be avoided. We believe that this would be a better way of solving the problem and taking care of the short-term employee.

In his testimony, Mr. Macy stated that the "additional level annual cost" will eventually be \$280 million per year. Since social security now pays these benefits with only 4.4 percent of the first \$6,600 of earnings withheld from the employee's earnings, as compared with the withholding of 6.5 percent of our entire earnings, it is difficult to understand the reason for the additional cost. He did not indicate the necessity for an increase in our deductions for that purpose, although we understand that the suggested changes will need additional financing. We can see no justification for an increase in our contributions to the retirement fund. Such an increase would put an additional burden on the career long-term employee by increasing his contribution without any additional benefits. This is patently unfair.

Mr. DANIELS. That point is not the matter under consideration before this subcommittee at the present time.

Mr. JASPAN. Well, we suggest, and we agree with some previous witnesses—

Mr. DANIELS. I might say, Mr. Jaspán, that this subcommittee does intend to go into a study of the financing of the retirement system. We expect to make a definite study of the retirement system to see how it is working, how it is functioning, and just exactly what the present status of the fund is.

Mr. JASPAN. I know Mr. Macy indicated yesterday that there would probably be additional withholding—

Mr. DANIELS. Well, he indicated yesterday that contributions to the fund on the part of the employee amount to 6.5 percent, the Government contributes a like sum, making a total of 13 percent. But in order to make the fund actuarially sound, a contribution in the total sum of 13.86 percent would be necessary, and that there is an actuarial deficit of about \$48 billion, whereas there is only \$16 billion in the fund.

That summarizes his testimony of yesterday. However, that is not the question before this subcommittee at the present time.

Mr. JASPAN. We are concerned about the fund, too, Mr. Chairman. We naturally want to withdraw our own contributions, and have our annuities when we retire, but we do know that some additional amount will have to be paid in to it. After the testimony yesterday, we spoke with Mr. Ruddock, and he indicated that still more would have to be withheld to take care of this feature that is proposed. And so instead of just possibly another half percent added it would be more likely three-quarters or 1 percent more to take care of the whole



thing, which concerns us very much unless there is some additional benefit.

Now, you have a bill that we would like to see tied in with this somehow: The bill that would compute the annuities on 2 percent of the earnings, and a high 3-year average instead of a high 5. At least that would give the long-term employee something for helping to pay for the short-term employee.

We are not primarily interested in those who enter the Federal service and leave in less than 5 years to enter private industry. Most of them will build up enough social security coverage and we do not believe it fair to have the career employee contribute for the protection of those who leave the Federal service.

In his testimony, Chairman Macy testified that last year 130,000 employees left the Federal service, and withdrew their contributions. Those who left the Government, and were later reinstated could have continuous coverage by not leaving their Federal positions. In any event, the primary concern should be for those who stay in the service.

Mr. Macy indicated yesterday that even though the provisions of this bill appear to be fairly simple, its administration may become extremely complex. We believe that before such a bill is enacted into law, all avenues should be explored, and any complex situation be explained in advance. Otherwise, H.R. 6784 could be more costly than the estimates.

We respectfully request this subcommittee to explore the possibilities, before reporting out H.R. 6784, and we hope that a method will be found to protect the short-term employees without any social security tie-in.

Thanks very much.

Mr. DANIELS. I would like very much to ask you one further question. You indicated in the early part of your statement, or you expressed fear of the absorption of the Federal civil service fund. Do you get that impression from this legislation?

Mr. JASPAN. Yes, I do; even though Mr. Macy stated there would be no absorption, or further tie-in, but in his charts he showed that there would be at least a 20-year coverage in some cases, and sometimes 25 years under this tie-in, and we are very much concerned about that.

The chart that he presented showed that the employee would benefit more under the proposals of this bill for—well, he had different ones. He had 5 years, 12 years, 20 years, and so forth, and we are afraid of a long-term tie-in. That would be the first step toward the absorption of our fund by social security.

Mr. DANIELS. I think his chart indicated that for short-term employees, and I asked him what he meant by short-term employees, short-term employees being employees who were in the Federal service from 5—possibly to 15 or 20 years, that they would benefit by their absorption into the social security system.

Mr. JASPAN. That is correct, that is the understanding I got, Mr. Chairman.

Mr. DANIELS. And the figures that appeared on his chart indicated that they would receive substantially more in payments under the social security program than they would by being in the Federal retirement system?

Mr. JASPAN. Well, that is what we are worried about. He projects this to the 20-year employee, and what is to keep social security from taking the 30- and 40-year employees, if they are going to benefit more under social security? Our stand is that the civil service retirement system should be changed so that these people who are paying 6.5 percent of their whole earnings, as compared with 4.6 percent, would receive the additional benefit under our own system, without any tie-in with social security.

Mr. DANIELS. Well, of course, under social security you understand that there are a great deal of other benefits that employees under the Federal system do not obtain.

For example, a Federal employee who has attained his status, or becomes eligible to receive benefits which might be postponed to a later date; suppose he has no wife, but he has four minor children. Under the Federal retirement system would his minor children, upon his death, receive any compensation or benefits?

Mr. JASPAN. If he has at least 5 years of service they would.

Mr. DANIELS. They would?

Mr. JASPAN. Yes, \$2,160, divided by the four. I think it is \$2,160. Are you talking about one with a deferred annuity?

Mr. DANIELS. Yes.

Mr. JASPAN. That is different, but we are interested in the career employee rather than one who leaves the service and seeks another job.

Mr. DANIELS. But the former employee's minor children, under those circumstances, do not receive any benefits, whereas if they are enrolled under social security they would, and benefits would be payable under social security until each child attained 18 years of age, and if the child were going to school, benefits would be paid for each child until he arrived at the age of 22. Such benefits are not payable under the Federal retirement system.

Mr. JASPAN. That is why we say rather than coordinate the two or tie them in in any way—

Mr. DANIELS. Would you make a greater contribution to the fund to obtain those additional benefits?

Mr. JASPAN. Well, I mentioned before, if we could get the high 3-year average and the 2-percent factor, our members would be willing to pay more into the fund. But as it is now without any additional benefits, and they would only have to take care of the number of people without getting anything themselves, there would be resentment among the long-term career employees.

Mr. DANIELS. Thank you, Mr. Jaspan.

Mr. Thompson?

Mr. THOMPSON. Yes, I do have a couple of questions.

First, I would like to say I appreciate very much your testimony, and I can understand your concern, as I do have some question in my mind about the person who leaves Federal service; there is a need that exists to protect this person's family, and so forth, in the event of certain happenings, and I feel certain that you are concerned about this.

Mr. JASPAN. Oh, yes.

Mr. THOMPSON. But as I view your testimony, your main concern is that there be no merger of the civil service retirement fund and the social security?

Mr. JASPAN. That is very important to us.

Mr. THOMPSON. And you are concerned that this may be a step in this direction?

Mr. JASPAN. Yes, sir. In fact, it is a giant step when they take 20 years' coverage, as this may do.

Mr. THOMPSON. Mr. Chairman, will we have an opportunity to question Mr. Macy any further?

Mr. DANIELS. We can call him back if it is necessary, if the subcommittee feels they would like to hear further testimony from Mr. Macy, we would have him back.

As a matter of fact, we are not going to conclude these hearings today. I don't know if we will be able to hear all the witnesses before the House meets, but if we do not have an opportunity to hear all the witnesses I will postpone the hearings, then, to some future date, and at the call of the Chair.

Mr. THOMPSON. Well, I do think there is a justifiable concern here, but at the same time there is a need that we must meet, and I think that everyone realizes this need. The best means of accomplishing the desired result, this may be the method, or it may be that we should amend the Civil Service Act to provide these various benefits for the less than 5 years.

Mr. JASPAN. That is what we believe, Mr. Thompson, that the change could be made within the system itself, rather than bringing social security in any way at all. Our members are very much concerned about social security, because attempts have been made in the past to absorb our system by social security. Studies were made and there were also suggestions that there should be an absorption, or coordination, whatever you call it. We are afraid we would lose some of our benefits and give up quite a bit of what we have, and wouldn't get much in return.

Mr. THOMPSON. Thank you very much.

Mr. DANIELS. Mr. Henderson?

Mr. HENDERSON. Mr. Jaspán, yesterday when Mr. Macy was heard I was writing down a question that I didn't ask him, because I didn't want to be misunderstood by those of you who are interested in this legislation. But I was going to ask him why we didn't do away with the Civil Service Commission retirement system and put it all under social security. I think such a proposal, if positively obeyed, would scare everybody to death. And you have expressed your concern about the long range, and this is what I really had in mind in thinking about the question yesterday.

I assure you that I share your concern, and I am not sure even though this legislation very clearly is beneficial to some employees, if we won't begin to find that we have a merger of two bankrupt funds that will give us all a lot of headaches, perhaps, after you and I are not on the scene. But I am very appreciative of the concern that you have expressed this morning.

Mr. JASPAN. We appreciate that, Mr. Henderson. I know that our members will feel better knowing that some of you people do share that concern. And the fact that we have so many resolutions ever since social security came into existence, at our conventions, on this one subject, shows that everyone had that fear since the very beginning. Because when social security started they had nothing, and we had a fund that was not in the red as much as it is now and looked pretty

good to them back in 1936. Our fund had been about 15 to 16 years old, and was growing. It was growing in spite of the fact that the Government had not made any contributions for the first 7 or 8 years and then only token contributions after that, and our fund was still able to pay all the retirement annuities out of it. Then social security came along and they were looking at it with greedy eyes, and they wanted to get their hands on it.

Mr. HENDERSON. Mr. Chairman, without belaboring the hearings, I was very appreciative of the statement that a previous witness made about the civil service retirement fund. Even though we hear a lot about the unfunded deficit, it is on a better pay-as-you-go basis than is the social security, and I have been one of the Members of Congress that has been concerned about our social security system, in that we continually pay the benefits out putting on a price tag to cover the benefits that are being paid out for the future generations. And here we are in this session of the Congress again talking about increasing the social security benefits, which is very hard for a Member of Congress to oppose, in political matters, I am sure you can well understand. But at the same time we are fast approaching what I consider to be the top limitations for the OASDI tax on the American worker, and the American employer, so that as we have some time now to consider this legislation, I think we ought to be very serious about what may be the implication on this first step of coordinating the two.

And I would conclude by saying that I have grave concern about how we are going to finance, in the future, our civil service retirement fund. I think our job will be much more difficult if we do have first steps toward merging the two systems.

Mr. JASPAN. I would be 100 percent with you, Mr. Henderson.

Mr. DANIELS. Mr. Jaspán, just one further question.

In thinking about your testimony, I get the impression that you are not in favor of the transfer of funds to the social security system, and inasmuch as the benefits payable to one who would be enrolled in the social security system would be paid out of the retirement fund, that we ought to make all benefits payable out of the retirement fund, and not come out of the social security.

Mr. JASPAN. That is what I have suggested, Mr. Chairman.

Mr. DANIELS. Thank you.

Our next witness is Mr. John McCart, operations director of the Government Employees' Council, AFL-CIO.

**STATEMENT OF JOHN A. McCART, OPERATIONS DIRECTOR,  
GOVERNMENT EMPLOYEES' COUNCIL, AFL-CIO**

Mr. McCART. Mr. Chairman and members of the subcommittee, we have supplied the subcommittee with copies of our prepared statement, and ask that it be incorporated in the record.

Mr. DANIELS. Without objection, the statement will be incorporated in the record at this point.

(The statement follows:)

PREPARED STATEMENT OF JOHN A. McCART, OPERATIONS DIRECTOR, GOVERNMENT  
EMPLOYEES' COUNCIL, AFL-CIO

Mr. Chairman and members of the subcommittee, the 34 AFL-CIO unions associated with the council join in advocating enactment of the general features

of the pending bill. These organizations represent a cross-section of postal, classified, and wage board employees in Federal Service.

Before discussing the pending measure, it is relevant to emphasize the long-standing concern of the council over any effort to coordinate or consolidate the civil service retirement system with the social security program.

Each serves a different and highly important purpose. Social security is devised to meet the needs of the entire population in old age and to provide protection to the families of workers who die or become disabled before acquiring eligibility for regular social security payments. It is a system of social insurance which guarantees to the general working population monthly payments to assure some income to families when the principal earner can no longer work because of retirement, disability, or death.

Civil service retirement, which antedates social security by 15 years, is designed to recognize a career in Federal public service by providing monthly benefits based upon length of service and the highest level of earnings while employed. Over the years, significant improvements, including payments to a disabled individual and to his dependents in the event of his death, have been incorporated in the civil service statute. Because of the heavy payroll contributions employees make to this staff retirement plan, they are understandably anxious to preserve it as the principal source of income when they retire.

With this background, we move to consideration of the bill before the subcommittee.

It has two basic features. For employees who die or become disabled or are separated from Federal positions before acquiring eligibility to a civil service pension, their retirement credit would be transferred to the social security program. As you are aware, Federal employees must have 5 years of service to be entitled to any annuity rights.

The second proposal involves employees who have short terms of Federal service exceeding 5 years. Under the civil service program, the benefits for them and their dependents are quite small. The bill recommends that their Federal service be added to any social security entitlement they may have so as to increase their monthly income to the social security minimum. In effect, for these short-term workers, the bill establishes minimum benefits under the Civil Service Retirement Act equivalent to social security payments, if their Federal employment had been covered by social security.

Reverting to our earlier comments on the apprehension of our unions over any attempt to merge the civil service and social security programs, the bill does not pose this problem. The civil service annuity system would remain undisturbed, and the increase in minimum benefits would be attained under the Retirement Act.

However, there is another persuasive argument for enactment of H.R. 6784. Social justice requires that Federal workers and their families who would otherwise have no income protection in the event of death, disability or retirement be accorded benefits available to all other segments of our working population as a minimum. We refer here to those with less than 5 years of Federal employment.

Similarly, those Federal employees who have short periods of Federal and postal work, but are eligible only for the smallest of annuities, should be guaranteed the minimum payments received by employees generally under social security. Failure to adopt this course will result in a continuation of below-subsistence levels of income for many of these individuals and their families.

Thus, the council endorses the principles advanced in H.R. 6784.

It is pertinent to observe here, Mr. Chairman, that the pending bill addresses itself exclusively to the problem of employees with few years of Federal employment. The remedies proposed in the bill are certainly appropriate.

However, we recommend that the subcommittee consider also improvements in the Retirement Act affecting those with longer terms of service.

The measure introduced by the chairman of this subcommittee, Representative Daniels, (H.R. 463) merits your serious consideration.

It changes to 2 percent the present formula for computing annuities of individuals entitled to retirement benefits. The present graduated formula of 1½, 1¾, and 2 percent does not yield sufficient monthly income to long-term Federal workers in the light of today's living costs.

Secondly, the bill reduces from 5 to 3 years the period for computing the employee's highest average salary. The combination of this provision and the 2-percent formula will insure future retirees and their survivors much more real-

istic benefit payments when measured against the greater financial responsibility of annuitants in a changing economy.

The council urges the subcommittee to proceed with favorable action on the pending bill, H.R. 6784.

We appreciate the opportunity to offer this presentation.

Mr. DANIELS. You may proceed, Mr. McCart.

Mr. McCART. The 34 AFL-CIO Unions associated with our council, Mr. Chairman, appear today to endorse the pending bill, H.R. 6784. I am encouraged by the concern of the subcommittee members over the identity and the integrity of the civil service system. We share that concern.

Traditionally we have been most apprehensive about incorporation of the civil service system into social security.

However, I must tell you that in this instance we don't find that apprehension justified. What basically is involved here is a question of social justice—the question of individuals and families who would otherwise have no protection at all being afforded some minimum protection under the social security program.

This applies especially in the case of the Federal employees who have less than 5 years' service, and do not qualify for any civil service retirement payments. But the bill is applicable also to those employees who are still short term, but have slightly more than 5 years, and thus qualify for some civil service retirement coverage.

In the first instance, the justification, I think, is rather obvious. These employees and their families would otherwise have no assured income in the event of the breadwinner's death or disability.

In the second case, it is a matter of providing to Federal workers and their families, under civil service retirement, the same basic benefits available to the population, generally, under social security.

I do think there are several things the subcommittee must consider a little bit more carefully, because this is a rather complex piece of legislation, and I must confess that I have had some difficulty in understanding it. For example, the civil service employee who retires with short service, and at the time of his retirement does not elect to accept the full reduction in his annuity in order to have a survivorship, it is our understanding that his survivors, upon his death, would have no protection at all. They would have none under civil service retirement, because he didn't elect the survivorship benefit, or elected only a partial survivorship benefit. According to our construction of Mr. Macy's statement, they would be denied any social security coverage, so these survivors would have no protection at all.

If we are going to entertain a concept of providing social security benefits as a base—a minimum—which is applicable to workers generally, as well as the civil service system, then it is only fair to conclude that these minimum benefits should be applicable to all who would otherwise not have them.

What I am saying, in effect, is that for the short-term Federal employee who is entitled to annuity benefits, in the event of his complete disability, then his survivors, his family, should be entitled to the minimum available under social security, which would not be the case as the bill is presently constructed.

In summary, Mr. Chairman, we endorse the principles of the pending legislation. It is obvious that the subcommittee will want to ex-

press itself in some detail to the specific provisions of the measure. While we are most conscious of the need of the individuals covered by this legislation, H.R. 6784 does not apply to civil service employees covered by the normal civil service retirement benefits. We recommend, therefore, that the subcommittee also give serious consideration to the bill, which you, Mr. Chairman, have introduced, H.R. 463. The bill improves the percentage and the high average salary for computing annuities.

That concludes my presentation, Mr. Chairman.

Mr. DANIELS. Mr. McCart, it is always a pleasure to have you here. We appreciate the expression of your views.

The gentleman from Georgia, Mr. Thompson.

Mr. THOMPSON. I would also like to thank you, and I share your concern about the inadequacy in one area here. On the first day of the hearing this did come up, and following the hearing I believe I asked Mr. Ruddock if he had any cost estimates of what the additional cost would be to assure at least equal benefits to the nondesignated spouse. I wonder if your counsel could ask Mr. Ruddock to provide us those figures.

Thank you.

Mr. DANIELS. We will ask the Commission to furnish such estimates. Thank you, Mr. McCart.

(The information requested from the Civil Service Commission is as follows.)

We have been asked for an estimate of the cost of deleting the requirement in the proposed new subsection (m) of section 8339 of title 5, United States Code (H.R. 6784, page 8, line 25, through page 9, line 3), that the guaranteed benefit level applies to the widow or widower of an employee retired under section 8336 or 8337 only when the retiring employee elected the maximum civil service retirement survivor annuity.

We estimate the added annual cost of the proposed modification of H.R. 6784 to be \$87 million. The unfunded liability of the retirement fund would be increased by \$1,157 million.

Most of this estimated cost would occur because one effect of the proposed change would be to provide survivor annuities to widows without the present requirement of a reduction in the annuity of the retiring employee. Only employees who could provide a civil service retirement survivor annuity higher than the guaranteed benefit level would have an incentive to accept a reduced annuity, and some of these would undoubtedly settle for the smaller but free guaranteed benefit level. The added cost of eliminating all reductions in the annuities of retiring employees in order to provide survivor annuities for widows or widowers is estimated to be \$116 million a year on a normal cost-plus-interest basis.

A principal reason for withholding the guaranteed benefit level from a widow unless the employee elected to provide maximum survivor annuity is to recognize his right of election. Under present law, the widow is entitled to receive survivor annuity at the maximum rate unless the employee at retirement affirmatively notifies the Civil Service Commission in writing that he does not desire his spouse to receive survivor annuity, or he specifically designates only a portion of his annuity as a survivor base.

ANDREW E. RUDDOCK,

*Director, Bureau of Retirement and Insurance.*

Our next witness is Mr. Sidney Goodman, president of the National Postal Union, accompanied by Mr. David Silvergleid. Mr. Goodman, without objection, your statement will be made a part of the record at this point, and you may make such comments as you wish.

(The prepared statement is as follows:)

PREPARED STATEMENT OF SIDNEY A. GOODMAN, PRESIDENT, NATIONAL POSTAL UNION

My name is Sidney A. Goodman, and I am privileged to serve as president of National Postal Union, located at 509 14th Street Northwest, Washington, D.C. We represent more than 60,000 postal employees, organized in excess of 500 local affiliates in 50 States, as well as Puerto Rico and the District of Columbia.

At the outset, we wish to express our sincere appreciation to the distinguished chairman of this subcommittee for his prompt introduction of H.R. 6784, these early hearings, and the opportunity afforded us to present our views.

H.R. 6784 embodies administration recommendations which would meet, to a large extent, the needs for basic protection that are not now being met by the Federal staff retirement system. At the same time, current benefit rights of present employees and survivors would not be disturbed.

We are in full accord with the objectives and purposes of H.R. 6784, although they are obviously limited in their scope, dealing strictly with one specialized phase of the U.S. Civil Service Retirement Act.

The U.S. Civil Service Retirement Act, unlike the social security system, places primary emphasis on retirement benefits for long-service personnel. It does not provide Federal employees the continuing basic protection provided by the social security system for workers in private industry. As a result, there exists gaps in disability retirement, survivor protection, and in the benefit levels available to Federal employees. One of the main gaps is caused by that provision of the U.S. Civil Service Retirement Act withholding eligibility for benefits until an employee has completed at least 5 years of service. Even after an employee has completed 5 years of service, benefits for survivors are likely to be much less than benefits payable to survivors of workers under the social security system.

In addition, the rate of turnover of personnel, in the postal service particularly, has been so great in recent years that it has resulted in large groups of employees who do not acquire eligibility under the Civil Service Retirement Act. Recently, the Post Office Department announced that it was compelled to hire 180,000 employees in order to retain approximately 80,000. This means that such persons are without protection at various times, and may reach retirement age without any right to an annuity.

The proposal contained in H.R. 6784 which would guarantee Federal employees continuity of basic protection workers in private industry have when they move from one job to another is justified and desirable.

Again, we emphasize our support for H.R. 6784. We are hopeful the committee will report promptly and favorably.

**STATEMENT OF SIDNEY A. GOODMAN, PRESIDENT, NATIONAL POSTAL UNION, ACCOMPANIED BY DAVID SILVERGLEID, SECRETARY**

Mr. GOODMAN. Thank you, Mr. Chairman. We will take exactly 2 minutes, a half minute of which, with your approval, Mr. Chairman, I will yield to my colleague here.

My name is Sidney A. Goodman, president of the National Postal Union.

The legislation under consideration actually does not affect the majority of career employees who retire after 30 years. Nevertheless, we think the legislation is commendable from a community point of view, and we support it in principle.

We support it provided that there is no increase in cost whatsoever to the present eligibles. We suggest, however, that the subcommittee give serious consideration to the question of insuring a minimum floor for those already retired, particularly those who retired prior to 1956, because these oldest retirees do not even begin to have the income that would be assured as a minimum under social security.



Postal employees are generally quite sensitive to the question of a tie-in between social security and our Federal Retirement Act, based historically on a report issued in 1954, I believe, the Elliott Kaplan report. That frame of reference would have given some postal employees a little bit more, but would have substantially reduced benefits for a great many more postal employees.

We would like the record to indicate that we would be strongly opposed to any integration in that frame of record.

With your permission, Mr. Chairman, I would like to yield to Mr. Silvergleid for a comment.

Mr. SILVERGLEID. Mr. Chairman, we are supporting H.R. 6784 under the conditions as described by Mr. Goodman. However, we do feel it is in the form of a piecemeal approach to a very obvious gap in protection for Federal employees. As a matter of fact, we are scheduled to testify tomorrow before the Ways and Means Committee. We will support the proposition as expressed in H.R. 5710, equivalent to this one, but we are also going to make a strong pitch for the bill introduced by Congressman Frank Karsten, H.R. 3771, which would provide Federal employees with an option to take social security in addition to their civil service retirement—

Mr. DANIELS. Mr. Silvergleid, if the Federal employees were given such an option, who would pay the employers' cost?

Mr. SILVERGLEID. The bill provides specifically that only the employee would pay the required amount, with no contribution by the Government. In the report on the bill itself, they cite an action taken by the 89th Congress in passing Public Law 89-97, which placed the tips and gratuities received by a million and a half people, under social security without any contribution by the employer. At that time, a statement was made by the chief actuary of the social security fund, stating that this was perfectly proper, and would in no way affect the solvency of social security.

H.R. 3771 makes the same provision, that Federal employees would make the same contributions as employees in private industries, with no contribution by the employer.

I might point out, Mr. Chairman, this would involve at the present time the savings of \$280 million a year, as pointed out by Chairman Macy.

Mr. DANIELS. Well, the reason why I asked the question is because I have already been approached by representatives of other employee organizations which said it was desirable to grant Federal employees the option. But they were willing to pay the entire contribution, that is, not only the share of the employee, but also the share of the employer, so it would not cost the Federal Government any money whatsoever. In that event I see no reason why the Federal Government should object to it, but your proposal is incorporated in the bill introduced by Congressman Karsten?

Mr. SILVERGLEID. Also by Congressman Gilbert, and several others. Three of them are on the Ways and Means Committee, and they propose that Federal employees be given that option. We oppose strongly any mandatory provision.

Mr. DANIELS. Well, I hope you are persuasive tomorrow.

Mr. SILVERGLEID. Thank you.

I might also point out that, as you know, a large percentage of Federal employees today, particularly postal employees, are necessarily moonlighting in order to maintain decent standards of living. These people are on social security, and will receive no benefit whatsoever from H.R. 6784. So that I don't know where Chairman Macy arrived at his overall cost estimate of \$280 million—it seems somewhat excessive.

Mr. DANIELS. You can obtain retirement benefits if you are a Federal employee for 5 or more years of service. If at the same time you are engaged in private employment, and making a contribution to the social security system, you can also receive benefits from the social security.

Mr. SILVERGLEID. This is what I expressed, Mr. Chairman, that there are a large proportion of Federal workers today who have social security benefits, even though they are Federal employees, and they wouldn't benefit by H.R. 6784 at all.

Thank you very much, Mr. Chairman.

Mr. GOODMAN. Thank you very much, Mr. Chairman. I would like to apologize for exceeding the 2 minutes I allowed the Postal Union. But let the record note an exchange between the chairman and my colleague.

Mr. DANIELS. Thank you. It is always a pleasure to listen to you. We have several more witnesses here today, and I am going to try to hear all of them.

I notice Mr. Tarr has a short statement, so Mr. Tarr, we will call you next.

Mr. Tarr is president of the National Association of Retired Civil Employees.

**STATEMENT OF CLARENCE M. TARR, PRESIDENT, NATIONAL ASSOCIATION OF RETIRED CIVIL EMPLOYEES, ACCOMPANIED BY JOHN T. HAUGHEY AND LUTHER L. MILLER, VICE PRESIDENTS, NATIONAL ASSOCIATION OF RETIRED CIVIL EMPLOYEES**

Mr. TARR. Thank you, Mr. Chairman. I am accompanied by Mr. John T. Haughey and Mr. Luther L. Miller, vice presidents of my association, and I will make my statement very brief.

Mr. Chairman, my name is Clarence M. Tarr, president of the National Association of Retired Civil Employees. The association membership is composed of retired Federal civil employees and their survivors. It has a present membership of over 133,000 members.

As former career employees of the Federal Government, our membership is dedicated to the continued improvement of the Federal civil service. Our association will support any proposal that will improve the morale and efficiency of the Federal civil service. We feel that H.R. 6784 as presently drafted will benefit a significant number of present civil employees and thereby contribute to the overall improvement in the Federal civil service. But at the same time we feel that H.R. 6784 as presently drafted will not accomplish all that it could accomplish as a builder of morale and efficiency because its provision for a "minimum annuity base" is prospective only. H.R. 6784 contains no provision for a "minimum annuity base" for those former

TRANSFER OF RETIREMENT CREDITS

Federal civil employees and their spouses who are now retired. There are thousands of present Federal civil service retirees who served a lifetime on such low salaries that their surviving spouses under present provisions of the law are not eligible for a survivor annuity sufficient of itself to keep body and soul together.

We respectfully ask that H.R. 6784 be amended to provide a minimum annuity for present Federal civil service retirees and their survivors that will at least guarantee their creature needs in this socially conscious age.

Thank you, Mr. Chairman, for having the opportunity of presenting our views.

Mr. DANIELS. Thank you, Mr. Tarr.

The gentleman from Georgia, Mr. Thompson.

Mr. THOMPSON. No questions.

Mr. DANIELS. Our next witness is Mr. Alan J. Whitney, executive vice president, National Association of Government Employees.

**STATEMENT OF ALAN J. WHITNEY, EXECUTIVE VICE PRESIDENT,  
NATIONAL ASSOCIATION OF GOVERNMENT EMPLOYEES**

Mr. WHITNEY. Mr. Chairman and members of the subcommittee, rather than reading the entire statement, I will try to summarize it.

We have two basic points we would like to make.

First, we would like to propose one change to the legislation being considered here, and secondly, to sound a warning.

The change to the bill, as written, deals with the effective date of the proposed legislation. The Civil Service Commission has recommended that the proposal become effective January 1, 1968. The National Association of Government Employees proposes instead that the legislation take effect on July 1, 1967, the beginning of the new fiscal year.

Mr. DANIELS. Any special reason for that suggestion?

Mr. WHITNEY. Yes, sir. The Commission estimates that the additional level annual cost on a normal cost plus interest basis, would be \$155 million for the transfer of credit proposal, and \$125 million for the guaranteed minimum annuity proposal. In Mr. Macy's own words, the effect of the administrative budget in 1968 would be minimal under the January 1 effective date. Moving the effective date up 6 months to July 1, 1967, could hardly increase the cost to the prohibitive level. I think "slightly more than a minimal" would be an apt description. The most conclusive justification, I think, for moving the date up, is the fact that the President's Cabinet Committee gave both proposals—that for a transfer of credit, and for a guaranteed annuity—the highest priority in its report of February 15, 1966. Higher in fact, than the measure approved in July of last year to allow retirement with a full annuity at age 55 following 30 years' service.

While the Cabinet Committee did not make any formal recommendations for specific enactment dates of its proposals, it was generally acknowledged in the Civil Service Commission that the group anticipated an effective date some time in 1967 for the transfer of credit and the guaranteed minimum annuity.

I say that the National Association of Government Employees also wishes to sound a warning in relation to this proposal. I find, having

sat here this morning, that every other organization has sounded the same warning, and that has to do with the need to insure that the civil service retirement and social security systems remain completely independent of each other. It is the NAGE's position that Congress, if it approves this proposed legislation, should make it clear and explicit that the civil service retirement system be maintained in the future, separate and independent of social security.

In short, that those who would consider merging the systems or supplanting civil service retirement coverage with social security coverage be given no grounds for considering the measure now being considered a "foot in the door." I might add, that we don't believe this is idle worry, because in the Cabinet Committee report, they noted they would not ask for closer coordination between the two systems at this time, simply because the employee organizations would object too violently to it. But they implied that such steps might be made in the future, and we feel it is important to make this distinction as clear as possible.

Mr. DANIELS. Thank you, Mr. Whitney.

The gentleman from Georgia?

Mr. THOMPSON. No questions.

Mr. DANIELS. Without objection, Mr. Whitney's prepared statement will be incorporated in the record at this point.

(The statement referred to is as follows:)

STATEMENT OF ALAN J. WHITNEY, EXECUTIVE VICE PRESIDENT,  
NATIONAL ASSOCIATION OF GOVERNMENT EMPLOYEES

Mister Chairman, members of the subcommittee, I'd like to extend the thanks of my association for the opportunity to present our views to you on the proposed amendments to sections of subchapter III, chapter 83 of title 5 of the United States Code regarding civil service retirement.

While in general we wholeheartedly support the administration's recommendations, as set forth in Representative Daniels' bill, H.R. 6784, we have one very important change to recommend and an equally important warning to sound.

The basic thrust of this bill, to assure Federal employees survivor, disability, and retirement protection at least as high as that enjoyed by other employees covered by social security, is a highly desirable move which will go a long way toward remedying a very obvious deficiency in the present system. It is, however, long overdue, and deserves speedy enactment.

At this point, I would like to commend both the Cabinet Committee on Federal Staff Retirement Systems—which recommends the move in its report of February 15, 1966—and the Civil Service Commission for recognizing the need and proposing the remedy.

The change to the bill as written which I mentioned earlier deals with the effective date of the proposed legislation. The Civil Service Commission has recommended that the proposal become effective January 1, 1968. The National Association of Government Employees proposes instead that the legislation take effect July 1, 1967—the beginning of the new fiscal year—and I will go into this in a little more detail shortly.

The warning which I mentioned is directed to a fear that probably every employee organization and many individual employees have voiced whenever the civil service retirement and social security systems are mentioned in the same breath—namely, the need to insure that the two systems remain completely independent of each other.

It is the NAGE's position that Congress, if it approves this proposed legislation, should make it clear and explicit that it is this body's intent that the civil service retirement system be maintained in the future separate and independent of social security. In short, that those who would consider merging the systems or supplanting civil service retirement coverage with social security coverage be given no grounds for considering the measure now being considered as a "foot in the door."

While we are now discussing the improvement of civil service death, disability, and survivor protection by emulating certain features of such social security protection, any attempt to align the full span of civil service coverage with that of social security would constitute a disservice to all Federal employees, particularly those with long service.

Social security, in nature and philosophy, is designed to fulfill a social-equity principle quite different from the individual-equity principle of the civil service retirement system. It should rightfully be regarded as a means of assuring an adequate minimum of protection to all American workers, particularly those who do not attain a high level of earnings in their careers, whether those careers are of a long or brief duration.

In other words, social security provides a floor below which protections should not drop; but it should not be used to supplant regular pension and retirement plans.

Getting down to the basic justifications for enacting the provisions of H.R. 6784, it seems to be commonly recognized by all sectors that it makes little sense for the Government to insure certain levels of protection for the great bulk of the country's workers—those covered by social security in private enterprise—yet to deny this same protection to its own employees.

Again, we find ourselves turning to the term "comparability" to serve as a guidepost (if you'll excuse the phrase) for determining what the Government should do and how far it should go in doing it to qualify as a responsive and just employer.

The present deficiencies are obvious. That workers should be in the hazardous position of working the first 5 years of their Federal careers with no protection for themselves or their families is a situation no employer laying claim to the label "progressive" should countenance.

Even after the required 5 years' service is completed, family protection continues to be below the basic protection of social security for a number of years.

The transfer of credit arrangement proposed by the Commission, coupled with the provision to raise benefits for employees covered by the civil service retirement system to the social security level, seems to us to be the most trouble-free way of accomplishing the proposed liberalization. Again, however, with the clear understanding that the two systems must be independent of each other.

Chairman Macy's extensive presentation to this subcommittee should suffice to explain in detail what this bill proposes to accomplish. We contend, however, that the measure's liberalizations should not be put off until next January 1.

The Commission estimates that the additional level annual cost, on a normal cost-plus-interest basis, would be \$155 million for the transfer-of-credit proposal, and \$125 million for the guaranteed minimum annuity proposal. In Mr. Macy's own words, the effect on the administrative budget for fiscal year 1968 would be minimal under the January 1 effective date.

Moving the effective date up 6 months, to July 1, 1967, could hardly increase the cost to a prohibitive level. "Slightly more than minimal," I think, might be an apt description.

The most conclusive justification for approving a July 1, 1967, effective date is the fact that the President's Cabinet Committee on Federal Staff Retirement Systems gave both proposals—for a transfer-of-credit and a guaranteed minimum annuity—the highest priority in its report of February 15, 1966. Higher, in fact, than the measure approved in July of last year to allow retirement with a full annuity at age 55 following 30 years' service.

While the Cabinet Committee did not make any formal recommendations for specific enactment dates of its proposals, it was generally acknowledged both within the Committee staff and the Civil Service Commission that the group anticipated an effective date sometime in 1967 for the transfer-of-credit and the guaranteed minimum annuity.

Mr. Chairman, members of the subcommittee, that concludes the testimony of the National Association of Government Employees. I would be happy to answer any questions you may have on any aspect of it.

Thank you for your attention.

Mr. DANIELS. Our next witness is Mr. Judah Dick, attorney at law, New York City.

Do you have a written statement?

Mr. DICK. I do have.

Mr. DANIELS. Without objection, your statement will be incorporated in the record at this point, and you may highlight it as you wish.

(The prepared statement is as follows:)

PREPARED STATEMENT OF JUDAH DICK, ATTORNEY AT LAW

To: The honorable members of this subcommittee.

I wish to express my appreciation to your subcommittee for giving me this opportunity to appear before you and offer several comments on H.R. 6784.

This bill is designed to overcome an inequity to Federal employees of relatively short duration who were shortchanged in retirement benefits due to the failure of Congress to coordinate the civil service retirement program and the social security program. I am sure that you are well aware of the problem, which has been under study for the past 30 years.

The objective of this bill is highly desirable. But I respectfully submit that several changes in the bill are in order.

1(a). The critical date should be changed from June 30, 1966, to December 31, 1936, or December 31, 1950. The June 30 date is contained in the bill at page 3, line 8, page 6, line 13, and page 7, line 4. I believe that the disallowance for social security purposes of all earnings prior to June 30, 1966, will make the benefits of the bill meaningless for thousands of Federal employees who are now close to retirement age. Annexed hereto, is a memorandum I prepared on a companion bill, now before the Ways and Means Committee, which is addressed to the unfairness and unreasonableness in establishing June 30, 1966, as the starting point and discriminating against all employment before that date. It should be noted that the Report of the Cabinet Committee on Federal Staff Retirement Systems (H. Doc. No. 402, 89th Cong.) did not recommend any cutoff date.

1(b). Because service prior to June 30, 1966, is excluded, a person who worked a combination of 25 years in Government and nongovernmental employment would not even be entitled to the \$100 per month minimum benefit which is being provided in H.R. 5710 for all other persons.

2. Consideration should be given to refunding the difference between the contribution made into the Federal retirement system (at the rate of 6½ percent of basic pay) and that which the employee would have paid into the social security system (at the rate of 3.9 percent of actual pay, up to \$7,800 in 1968 under H.R. 5710). The difference can be quite substantial; in my father's case, it would come to \$1,561.14, as shown in the annexed memorandum.

3. The tax equivalent should be based on actual compensation as defined in the Internal Revenue Code 3121(a). Basic pay does not include such items as overtime pay, night differential, etc. which are taxable for social security purposes. Similarly, basic compensation above the amount taxable for social security purposes (\$6,000 in 1967; \$7,800 in 1968 under H.R. 5710), should not be taken into consideration.

4. Provision should be made for transfer of funds from the social security trust funds to the civil service retirement fund where payments out of the latter fund will be made on the basis of both Government and non-Government employment.

If the suggested changes are adopted by the subcommittee, the bill will provide an adequate, fair, and just solution to the problem and restore the Federal employee to first-class citizenship. Congress will thereby recognize that it has a duty to provide a realistic pension to its own employees, at a standard that it has established for all other wage earners in the country.

Enclosure.

Re transfer of credits from the civil service retirement fund to the social security trust funds

To: The Honorable Members of the House Ways and Means Committee.

I wish to express my gratitude to you for extending me this opportunity to appear before you and testify on a matter which has interested me for the past 5 years and which affects the fortunes and lives of thousands of my fellow Americans who have spent some time during their working lives in the service of the Government.

The only major group of persons presently excluded from social security coverage is Federal employees. While the Federal Government provides a good pension for its career employees who have spent 25 to 30 years in Government

## TRANSFER OF RETIREMENT CREDITS

service, it fails to take the needs of persons who spend 10 or 15 years in civil service into account. The pension system is geared to those persons with many years of service by the computation of annuities based on the length of service, with those years over the 10th year in service counting 25 percent more than the first 5 years. The basis for the first 5 years is 1½ percent; the next 5 years—1½ percent; the excess—2 percent.

There is no transfer of credits from Government service to social security (as there is for those covered by the railroad retirement system). Since social security benefits are based on lifetime earnings, and all earnings in Government are excluded, the average drops quite sharply. If the person is not entitled to any annuity from the civil service system because of retirement prior to 62 or any other reason, he obtains a reduced social security benefit and nothing from the Government. If he does retire at 62 after 5 years in Government, his combined benefits from both social security and civil service retirement are substantially less than that which he could have obtained had he remained in non-governmental employment for about half the cost. The magnitude of the problem is shown in the report prepared by the Social Security Administration to affect 92 percent of all Federal employees.

To illustrate my point, I will use my father's case as an example. My father was self-employed for many years. His business declined and he started working for the post office in April of 1959. He will reach 62 in December of 1968, and will give a list of his basic salary—which is the basis of civil service annuities—and the contribution he made to the system at the rate of 6½ percent.

Year	Basic salary	Rate (percent)	Contribution
1959	\$3,026.25	6.5	\$196.70
1960	4,190.00	6.5	272.35
1961	4,385.00	6.5	285.02
1962	4,600.00	6.5	299.00
1963	4,926.50	6.5	320.19
1964	5,320.25	6.5	345.20
1965	5,905.50	6.5	383.85
1966	6,341.00	6.5	412.16
1967, projected	6,607.00	6.5	429.45
1968, projected	6,783.50	6.5	440.92

We have a total contribution of \$3,398.84. Benefits are based on the average of the highest 5 years—or \$6,232.65 per year. This would yield an annuity—based on 9¼ years of service—of \$985.38 per year or \$82.11 per month. Since my father's social security average was substantially lowered by his Government service, he would be entitled to the minimum benefit of \$70 for himself and \$35 for his wife. To obtain this benefit at age 62, he would take off 20 percent—leaving a social security payment of \$85.50. However, if he desires to provide the same type of survivor protection for his wife as that provided by social security—a 50-percent payment—he would have his annuity reduced by a stated formula to \$890.13 or \$74.18 per month. This would give him a total retirement pension—including both the civil service annuity and social security—of \$159.68.

If the Government service was transferable to the social security system, his payments by way of employment taxes and amounts credited would be:

Year	Amount credited	Rate (Percent)	Contribution
1959	\$3,500	2.5	\$87.50
1960	4,800	3.0	144.00
1961	4,800	3.0	144.00
1962	4,800	3.0	144.00
1963	4,800	3.63	174.00
1964	4,800	3.63	174.00
1965	4,800	3.63	174.00
1966	6,000	3.85	231.00
1967	6,000	3.9	234.00
1968, projected	7,300	3.9	284.70

<sup>1</sup> For social security purposes, compensation for overtime and nighttime differential are counted, although not part of basic compensation. Figures are based on those in H.R. 5710.

His total benefits under this system, had Government service been eligible for benefits, would be \$144 for himself and \$72 for his wife; at age 62, it would be \$115.20 for himself, and \$57.60 for his wife or a total of \$172.80. The total contributions into the social security system would come to \$1,837.70.

It is odd that although my father has paid \$1,561.14 more into the civil service retirement system, his benefits from both this system and social security, would be \$13 per month less. This is not just, or fair, or equitable.

This problem has existed for the last 30 years since social security came into existence. It has been studied by various committees and commissions in the executive and legislative branches of Government, and it is only now that some legislation will be enacted on this subject. Let us examine the present proposal to see whether it provides the adequate solution.

Sec. 116 of H.R. 5710 would permit the transfer of credits from the Federal retirement system to the social security system, if the person is not eligible for Federal retirement benefits only. Since any one may become not eligible by resigning before age 62, I am troubled by this provision. I am troubled by the limitation in section 116 of earnings transferable to those earned after June 30, 1966. This would rule out almost all of my father's earnings, and would make the transfer worthless to him and to the thousands of other Federal employees who are close to retirement and will not have many working years left after June 30, 1966.

What is the reason for choosing this date as the starting point for transfers of credit—a point which will make it meaningless for any person who has spent many years in Federal service?

None come to mind other than administrative convenience. Surely, in a day and age of computer, it would not require too much effort to have transfers of credit permitted all the way back to January 1, 1937, the start of the social security system. This is what was done for the railroad employees who also must pay 6½ percent for retirement benefits. I do not comprehend why Government employees deserve worse treatment than railroad employees.

The Cabinet Committee on Federal Staff Retirement Systems, appointed by President Johnson, made a recommendation to permit free transfer of credits between the staff retirement systems and social security, without any limitations. (See H. Doc. No. 402, 89th Cong., March 7, 1966, pp. 26-28).

The cost to the Government would be quite insubstantial, since the Government must presently contribute to the civil service retirement fund. It would seem that the general social security funds would bear more of a burden than the Government. This is only fair, since a Government employee should be as good as anyone else.

In the past, Congress has made special provisions for new groups of persons coming under social security for the first time, so that their pensions be commensurate with their lifetime earnings. I respectfully submit that this precedent should be followed in the instant situation and that the date in the bill (p. 34, lines 5-6, p. 34, line 11, p. 38, line 1) be changed to January 1, 1937, or January 1, 1950—which is the date used to compute average benefits for almost everyone now covered by social security.

#### STATEMENT OF JUDAH DICK, ATTORNEY AT LAW

Mr. DICK. I would just like to highlight my testimony. I think a major error has been committed by the powers that be, that the Civil Service Commission and the Social Security Administration in picking the effective date of all benefits under either the transfer of credit program, or the equivalent social security benefit under the social security benefit retirement of June 30, 1966. This would mean that all work that was done by any Government worker up to that date would have no meaning whatever, so that if someone would retire a year hence, all that he would have under social security is a year and a half, or 2½ years, whereas all his previous employment would be entirely wasted, and no benefit would be given to him whatsoever. And I think this is a matter which is not just irremediable. I think in this day and age, with computers there is no difficulty in arranging



a system, and having the benefits go back to 1950, or 1936, like for any other employer, and I would like to mention about the question of coordination.

The railroad retirement system, which is very similar to the civil service system, with a 6½ percent type of contribution, has had a tie-in, that those employees of 10 years or less get their benefits from social security, and get a refund of the difference between the amount they paid in under railroad retirement and the amount that would have been payable under social security, and those over 10 years have their social security transferred into the railroad retirement systems, and both work hand in hand to give the maximum benefit to all employees, and I think the Federal employee deserves as much as the railroad employee, and he shouldn't be penalized for working for the Government.

Mr. DANIELS. Have you testified before the Ways and Means Committee?

Mr. DICK. I will very soon.

Mr. DANIELS. Well, this subcommittee is considering this legislation as an amendment to the Federal Retirement Act, so therefore I think it would be important on your part to convince the Ways and Means Committee of your point of view thereon.

Mr. DICK. Thank you very much.

Mr. DANIELS. Any questions, Mr. Thompson?

Mr. THOMPSON. No, sir.

Mr. DANIELS. Our last witness is Mr. Carey W. Hilliard, president of the Rural Letter Carriers' Association.

Mr. HILLIARD. Mr. Chairman, in compliance with your request, I would like to submit our statement for the record.

Mr. DANIELS. Without objection, your statement will be incorporated in the record after your oral comments.

#### STATEMENT OF CAREY W. HILLIARD, PRESIDENT, NATIONAL RURAL LETTER CARRIERS' ASSOCIATION

Mr. HILLIARD. Mr. Chairman and members of the subcommittee, my name is Carey W. Hilliard. I am president of the National Rural Letter Carriers' Association, an organization with a membership of 42,000, representing the regular, retired, and substitute rural carriers of the Nation.

Today I am accompanied by our vice president, Mr. Herbert F. Alfrey. Mr. Chairman, if I may, there is one gray area of coverage for widows which would still exist if the proposal pending before the subcommittee is enacted as provided in H.R. 6784. Under present provisions of the Civil Service Retirement Act, a retiring employee must elect a survivorship annuity in order to assure an annuity to the widow in the event of his death. Under the proposal, if the employee does not elect maximum survivor annuity at the time of retirement, the widow, or widower, would not be eligible for the guaranteed higher benefit under the Civil Service Retirement Act. It is our opinion that the survivorship annuity features of the Retirement Act should be made automatically. This would preclude recurrence of many unfortunate situations where the retiring employee, for reasons best known only to himself, fails to elect maximum

survivorship protection for his spouse at the time of retirement. This benefit is automatic under social security, and we believe it would be an improvement to make it automatic under civil service. We recommend that the subcommittee consider such an amendment to the Retirement Act.

We are fully cognizant, Mr. Chairman, that this, as well as other improvements in the Retirement Act, which this association desires and will support in subsequent hearings, increases the financial burden on the civil service retirement fund. We are also aware of the present actuarial deficiency of the fund. In light of this, we wish to advise the subcommittee that we will support legislation to improve the cost-funding formula, which will necessitate increased contributions by both the employees and the Government. The rural letter carriers of the Nation are willing to increase their contributions to the retirement fund to adequately finance improvements which we believe desirable and merited. In closing, Mr. Chairman, may we urge consideration of our proposed amendment to the Retirement Act relative to survivorship annuities, and we trust that the subcommittee will see fit to approve and report H.R. 6784 in order to update and upgrade retirement, disability, and survivorship protections and benefits afforded to the employees of the Federal Government.

Thank you very much for this privilege of testifying.

Mr. DANIELS. Thank you for coming here.

Does the gentleman from Georgia have any questions?

Mr. THOMPSON. No.

(The prepared statement of Mr. Hilliard is as follows:)

PREPARED STATEMENT OF CAREY W. HILLIARD, PRESIDENT, NATIONAL RURAL LETTER CARRIERS' ASSOCIATION

Mr. Chairman, members of the subcommittee, my name is Carey W. Hilliard, I am president of the National Rural Letter Carriers' Association, an organization with a membership of 42,000, representing the regular, retired, and substitute rural carriers of the Nation.

Mr. Chairman, this organization wishes to first commend President Lyndon B. Johnson for submitting recommendations to the Congress aimed at improving and liberalizing retirement, disability, and survivorship benefits for Federal employees. We deeply appreciate your introduction of H.R. 6784, Chairman Daniels, and also the fact that you have promptly scheduled hearings on this important legislative proposal.

The National Rural Letter Carriers' Association has sought legislation during the past several years to provide survivorship and disability benefits for Federal employees prior to the completion of 5 years of civilian service with the U.S. Government, which is the present requirement for assuring coverage under civil service retirement. There have been a number of unfortunate situations brought to our attention where a short-term career rural carrier passed away and/or became disabled before completing the service requirement to acquire coverage under the Civil Service Retirement Act. In these cases, a widow and dependent children were left without any survivorship income based upon the employment of the husband and/or the disabled employee separated from the postal service without any income protection. In both cases, they were entitled to and received only a lump-sum payment of retirement contributions and interest. It is unfair and unrealistic to continue to deny survivorship or disability benefits in such cases. Such protection is presently acquired by those persons who are employed in positions under the social security system after completion of only 18 months of covered service. Certainly in all fairness and equity a like protection should be provided to employees of the U.S. Government.

The transfer-of-credits provision in H.R. 6784 would resolve this problem and provide survivorship and disability protection by crediting their Federal civilian

service to social security. The bill provides for a transfer of money from the civil service retirement fund to the social security fund in an amount—"tax-equivalent"—necessary to cover the social security contributions of the employee the same as if his Federal service had been in a position covered under OASDI. The remaining amount in the retirement fund would be refunded in a lump sum.

Although a similar protection could be provided by amendments to the Civil Service Retirement Act, we believe that the transfer of credits proposal is sound. We supported a similar proposal in the last session of Congress and we again endorse this proposal in H.R. 6784 and urge the subcommittee to favorably act on this meritorious recommendation to eliminate the present disastrous void in survivorship and disability protection, for those Federal workers who die or become disabled before completing sufficient service to acquire coverage under the Civil Service Retirement Act.

This transfer of credits also assures retirement coverage for those workers who either work short periods in the Government or who transfer in and out of Government service. This, likewise, is a desirable improvement which would assure a continuity of coverage for purposes of retirement income whether the employment is in a position covered by civil service retirement or under social security.

The second improvement provided for in H.R. 6784 would liberalize survivorship benefits under the civil service retirement system in order to assure that such dollar benefits to survivors would equate with the minimum amounts which would be payable if the Federal service had been performed in a position covered under the Social Security Act. It presently requires a considerable longer period of Federal service than service under OASDI to acquire similar survivorship benefits. Without question, the survivors of Federal employees should be accorded survivorship benefits which would equal or favorably compare with those granted to persons working under social security. This is a most important liberalization, one which will not affect a large number of employees but one which from both a humane and social-economic viewpoint deserves favorable consideration by the subcommittee. We urge that this provision be approved by the subcommittee and trust that both this and the transfer of credits proposal may win approval in this session of Congress.

There is one gray area of coverage for widows which would still exist if the proposal pending before the subcommittee is enacted as provided in H.R. 6784. Under present provisions of the Civil Service Retirement Act a retiring employee must elect a survivorship annuity in order to assure annuity income to the widow in the event of his death. Under the proposal, if the employee does not select maximum survivor annuity at the time of retirement, the widow (or widower) would not be eligible for the guaranteed higher benefit under the Civil Service Retirement Act. It is our opinion that the survivorship annuity features of the Retirement Act should be made automatic. This would preclude reoccurrence of many unfortunate situations where the retiring employee—for reasons best known only to himself—fails to elect maximum survivorship protection for his spouse at time of retirement. This benefit is automatic under social security and we believe it would be an improvement to make it automatic under civil service. We recommend that the subcommittee consider such an amendment to the Retirement Act.

Mr. Chairman, the details of this two-part proposal, as recommended by the administration and set forth in H.R. 6784, were very ably explained by John W. Macy, Jr., Chairman of the Civil Service Commission, when he testified before the subcommittee. We believe that the enactment of both proposals would constitute a major improvement in retirement, disability and survivorship protection for Federal employees.

We are fully cognizant that this, as well as other improvements in the Retirement Act which this association desires and will support in subsequent hearings, increases the financial burden on the civil service retirement fund. We are also aware of the present actuarial deficiency of the fund. In light of this, this association desires to advise the subcommittee that we will support legislation to improve the cost-funding formula which will necessitate increased contributions by both the employee and the Government. The rural letter carriers of the Nation are willing to increase their contributions to the retirement fund to adequately finance improvements which we believe desirable and merited.

In closing, Mr. Chairman, may we urge consideration of our proposed amend-

ment to the Retirement Act relative to survivorship annuities, and we trust that the committee will see fit to approve and report H.R. 6784 in order to update and upgrade retirement, disability, and survivorship protections and benefits afforded to employees of the Federal Government.

Mr. DANIELS. Well, that concludes today's hearing.

The Chair desires to state that we are going to keep the record open for those people who desire to supplement views that they have expressed here today, and also for the filing of any additional statements.

I further wish to state that we will adjourn without date, and we will meet again subject to the call of the Chair. If any member of the subcommittee desires to question Mr. Macy, we shall have him and Mr. Ruddock back again. I am quite sure that they will have no objection.

(Thereupon, at 12:10 p.m., the hearing was concluded as above noted.)

(The following statements were furnished for incorporation in the record:)

PREPARED STATEMENT OF HAROLD MCAVOY, NATIONAL PRESIDENT OF THE NATIONAL ASSOCIATION OF POST OFFICE MAIL HANDLERS, WATCHMEN, MESSENGERS, AND GROUP LEADERS, AFL-CIO

Mr. Chairman and members of the subcommittee, for the record, my name is Harold McAvoy. I am national president of the Post Office Mail Handlers, Watchmen, Messengers, and Group Leaders, AFL-CIO.

Our national association is part of the American Federation of Labor, Congress of Industrial Organizations, and the Government Employees Council. Our national offices are located in the Warner Building, 13th and E Streets Northwest, Washington, D.C., and our membership includes every State in the Union.

At this time, I would like to say that our national association fully endorses H.R. 6784, the bill that was introduced by our distinguished chairman, Congressman Daniels of New Jersey.

I urge you, Mr. Chairman and members of this subcommittee, to give speedy and favorable consideration, to this worthy piece of legislation, for enactment of this kind of legislation is long overdue.

In closing my statement Mr. Chairman and members of the subcommittee, I wish to thank you for being allowed the privilege to express the thinking of our National Association of Post Office Mail Handlers, Watchmen, Messengers, and Group Leaders, AFL-CIO.

STATEMENT OF ASHBY G. SMITH, PRESIDENT, NATIONAL ALLIANCE OF POSTAL AND FEDERAL EMPLOYEES

Hon. Dominick V. Daniels and members of the subcommittee, we appreciate the opportunity to present the position statement of this union on H.R. 6784.

I, Ashby G. Smith, am president of the National Alliance of Postal and Federal Employees, an industrial union with 36,000 members and 117 branches. Our national office is located at 1644 11th Street Northwest, Washington, D.C.

Our union fully supports the provisions of H.R. 6784 as a major step toward achieving justice for that group of Federal employees who, due to shifts in their employment, are not protected under civil service retirement.

Two factors make the passage of this type of legislation imperative; (1) the growth of the social security system and the intention that all workers not covered by any other Federal plan be protected thereunder, and (2) the increased turnover in Federal employment and mobility of workers.

With the present and proposed governmental policies that encourage a movement of employees between the Federal Government and private industry as well as between employment in the Federal Government and, State, county or municipal employment, measures must be taken to see that the employees engaged in such shifts of employment do not sacrifice entirely the family income upon retirement or disability.

Because H.R. 6784 appears to provide an effective method of preventing an employee, engaged in such changes of employment from ever being devoid of retirement coverage, the National Alliance of Postal and Federal Employees strongly urges its passage at this, the 1st session of the 90th Congress.

---

STATEMENT OF MICHAEL J. CULLEN, PRESIDENT, NATIONAL ASSOCIATION OF SPECIAL DELIVERY MESSENGERS, AFL-CIO

Mr. Chairman and members of the subcommittee, by way of identification, I am Michael J. Cullen, president of the National Association of Special Delivery Messengers, AFL-CIO. We have been granted exclusive recognition for the special delivery messenger craft by the Post Office Department under Executive Order 10988.

We appreciate this opportunity to express our support of the basic principles of H.R. 6784. We fully ascribe to the provision for the transfer of credits to social security for those employees who transfer out of the Government employment, become disabled, or die prior to completing 5 years of civilian service. This would guarantee these employees and their families the minimum benefits obtainable if their employment was covered by social security. The provision of H.R. 6784, which extends minimum social security benefits to those Federal and postal employees who have 5 or more years of service, is also a desirable one. The civil service retirement system benefits to many such employees would be meager.

If the provisions of H.R. 6784 could be achieved within the framework of the civil service retirement system, we strongly support such a course of action rather than an involvement with the social security system.

We also would like to point out that H.R. 6784 does not have any benefits for employees with long years of service. If additional employee contributions are necessary to finance the cost of this legislation, we strongly urge this subcommittee's favorable consideration of a change in the basic formula for computing annuities to a straight 2 percent for each year of service and a reduction in the average of the high 5 years of service to the average of the high 3 years of service.

Mr. Chairman and members of the subcommittee, we wish to commend you for your continuing interest in the problems and the plight of Federal and postal employees. We thank you for considering our ideas on these matters.

---

ORGANIZATION OF PROFESSIONAL EMPLOYEES  
OF THE U.S. DEPARTMENT OF AGRICULTURE,  
Washington, D.C., April 6, 1967.

Hon. DOMINIOK DANIELS,  
*Chairman, Subcommittee on Retirement, Insurance and Health Benefits, Post Office and Civil Service Committee, House of Representatives, Washington, D.C.*

DEAR MR. DANIELS: We are most appreciative of the privilege of having a statement on H.R. 6784 included in the report on the hearings on this bill. OPEDA's national board of directors, representing more than 8,300 members, supports the provisions of this bill. It is believed that the Federal Government has the obligation to see that its own civil servants and their survivors have at least as good an annuity as is provided the citizens employed in the private sector who will benefit from social security. H.R. 6784 will fill the gap that has always existed in the Federal civil service retirement system.

OPEDA agrees to the proposed increase in employee contributions to 7 percent if this is necessary to pay for the employee's part of the increased benefits. This is with the provision that the employing agency contribute at least as much, and that the Congress appropriate on a regular basis a sufficient amount to fund the extra costs such as additions of new groups and cost-of-living increases for retirees. It should be pointed out, however, that the trend in industry is for the employer to pay for an increasingly larger proportion of the cost of annuities that are in addition to social security. For example, many of the large industrial firms, such as the American Telephone & Telegraph Co. and the United States Steel Corp., have attractive noncontributory retirement programs. In view of the

TRANSFER OF RETIREMENT CREDITS

already unfavorable competitive manpower situation in which the Federal Government finds itself, it would appear that serious consideration should be given to the extent to which the employee contributions should be raised. This is particularly true of the younger professionals whose living costs require a major part of their gross salaries.

In the past, the long vesting periods of most State and local government retirement systems and the lack of provisions for the transfer of retirement rights between the Federal Government and State and local governments as well as other employers have hindered the transfer of employees. The provisions of H.R. 6784 would help to meet these fundamental needs of better utilization of manpower and greater freedom of the individual to seek employment whenever it is to his advantage.

We wish to congratulate you on the progressive leadership you are giving to those personnel functions for which your subcommittee is responsible.

Sincerely,

C. O. HENDERSON,  
*Executive Director.*

○